Two Sections—Section Two

The Commercial & Financial Chronicle

AMERICAN BANKERS CONVENTION SECTION

GIVING PROCEEDINGS OF THE CONVENTION OF

AMERICAN BANKERS ASSOCIATION

HELD AT HOUSTON, TEXAS

NOVEMBER 13 TO NOVEMBER 17, 1838

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December 3, 1938

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AMERICAN BANKERS CONVENTION

SECTION OF THE

Commercial and Financial Chronicle

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The Bankers and Public Policies

Speeches and proceedings at the American Bankers Association's annual national conventions have invariably been looked to as the careful and considered expression of the views held by the conservative financial community regarding economic questions of the day. In relation to enactments or proposals in national legislation, this has been notably true. The Bankers Association has at recent annual meetings taken its ground regarding such policies. Resolutions adopted in September, 1933, at the Chicago convention, when the dollar was in process of devaluation and many other new economic ideas had been initiated, admitted that the situation was then "beset by strange perplexities," but added that "this Nation cannot indefinitely continue to carry on its business affairs with a monetary system in so unsettled a state as it is in at present." It added that such monetary problems ought to "be made the subjects for searching and careful study by a Federal commission." At subsequent annual meetings the Association's resolutions called repeatedly for a balanced Federal budget "at the earliest possible date." A year ago, at the October convention in Boston, the resolutions carefully refrained from holding the Government responsible for the trade reaction then in progress, but it reiterated strongly its demand for a balanced budget and "a sound public fiscal policy."

The resolutions adopted by the convention on Nov. 17 at Houston avoided for the most part criticism of public policies. They declared again that "return to a balanced budget should be the prime objective of a sound public fiscal policy," and declared as of vital importance:

"That taxes shall not be punitive, discriminatory or confiscatory, and that they shall be so devised and administered that they may be taken out of the national income with the smallest possible injury to the sources of that income."

The resolutions further advised "that overlapping and duplicate taxation by local, State and Federal governments be eliminated, and that the administration of the several taxing laws be so standardized that taxpayers may know their tax liabilities with a reasonable degree of certainty."

These declarations it would be difficult for any serious person to oppose. They were calmly stated, and no antagonism to express Federal purposes was contained in them—beyond perhaps the declaration, in reply to official criticism, that the banks "have never before been more eager to make loans" and "are serving their customers and communities with increasing flexibility and effectiveness." But the absence of aggressive attack on objectionable Federal policies was easy to understand. The situation at the Houston meeting of the Association, in November of the present year, was in some respects not what it was in the autumn of 1937 or of the four preceding years. It is true that Administration proposals and experiments of a dangerous character had again been in evidence during the preceding 11 months. But in two respects the situation had been altered—by the continued revolt in House and Senate against some of the more extreme Administration measures; by the President's personal and unsuccessful effort at the primaries to "purge" the party of Democratic opponents to his policies, wherever they were to come in November before the voters, and finally by the astonishing national elections of Nov. 8, whereby 81 seats in the House of Representatives were won by the Republicans and eight in the Senate, with the Democratic House representation reduced from 334 to 262 and the Republican raised from 89 to 170.

It was not to be expected that the convention, in its speeches if not in its formal resolutions, would refrain from comment on this political transformation. It was bound to do so, in the light of what had preceded it. In a talk for publication before the convention opened, the Association's retiring President, Mr. Orval W. Adams, gave as his published judgment of the election that the "system of checks and balances is on the way back and personal government is on the way out," and predicted that this should go a long way toward "restoring lost confidence." In his introductory speech to the convention, Mr. Adams pungently declared that "to recapture control in Federal spending is the most vital issue confronting this great democracy," and that "only on the foundation of a sound fiscal policy can civil liberties, free government, freedom of the press, freedom of speech, freedom of assembly and freedom of worship be preserved."

These views were not definitely opposed by Jesse H. Jones of the Reconstruction Finance Corporation, who, though he spoke to the convention for the Administration, had nothing to say of the Administration's fiscal experiments. Mr. Jones defended the Administration chiefly by reference to the banking holiday, to the stopping of the run of hoarders by this expedient in March, 1933, and to the rehabilitation of the banks. "You did," he told the bankers, "like the first few years of the Roosevelt Administration. Why? Because he saved your banks, those that were alive when he took office, and because he brought back a measure of prosperity."

No one, least of all the bankers, wishes to detract from the importance of the bold measures with which the Roosevelt Administration stopped for nine days the compulsory meeting of demands from frightened bank depositors, and then in the next few weeks or months put the seal of Government approval on solvent banks and understook rehabilitation of those which for the moment were crippled. This action was a strongly contributory influence to the prestige of the new Administration. Yet, even ignoring the argument of those who, like Professor Myers, hold that the run on the banks on the eve of March 4, 1933, was a consequence of doubt over the new President's financial policies, and of fear at his known refusal to declare for the gold standard or to cooperate with the retiring Administration in meeting the crisis, there are other considerations.

Mr. Jones must be aware, as are most other well-informed citizens, that the plan under which the banking holiday and banking rehabilitation were decreed had been proposed to the Hoover Administration at the beginning of 1933 by Federal Reserve advisers, was cordially approved by that Administration, and was not introduced by it because only a few weeks remained to the retiring Administration and because advance cooperation from the incoming President was lacking.

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GENERAL SESSION

AMERICAN BANKERS ASSOCIATION

Sixty-Fourth Annual Convention, Held at Houston, Texas, Nov. 13-17, 1938

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Banking and Changing Conditions

By Jesse H. Jones, Chairman of the Reconstruction Finance Corporation

Mr. President, Members of the American Bankers Association:

I join all the people of Houston in extending to you a most hearty welcome, and hope your stay here and your deliberations will be both pleasant and profitable. If I consulted my own pleasure, and the pleasure of some of you perhaps, I would thank you and sit down, but from those of your members with whom I advised about that course, I got no support.

I do not like making speeches, and I like writing them less. Maybe it is because I have never learned the art of using language to conceal my thoughts rather than to express them. I have talked to you a number of times, and write occasionally, never because I want to talk or write, but in the interests of improving conditions generally, and banking in particular.

I appreciate very much your coming to Houston for this meeting. I love Houston—I am proud of it—and want everybody to see it. I like every one of you. I could not work with men for six years and not like them. We may not always agree on every point, every detail, but we can agree on the objective; that is, we all want to do the banking business as it should be done, we want to do it in a way that will be of the greatest help to the country, we want to meet all legitimate credit needs that can be met by banks, and at the same time we want to run sound banks.

One point on which we all may not see eye to eye is the extent of the change in credit requirements in the last decade or so, and the fact that we will not again see banking done as many of you learned to do it, and prefer to do it. I call particular attention to the fact that the evolution of banking did not begin with the bank holiday, March, 1933. It has been undergoing changes since the beginning, but it has been particularly noticeable to our generation since the creation of the Federal Reserve System, which has been followed by other changes and by the establishment of many Government and semi-Government credit agencies.

Financing business and merchandising through the sale of stocks, bonds and note issues to the public and through finance companies, &c., has further reduced the demand for bank credit. If we are wise we will endeavor to prevent further encroachment on the banking business from any source.

The tragedies, 1929 to 1933, were so many and so severe as to cause any who survived to be cautious and try to steer clear of a repetition. Enough time has elapsed, however, for us to recognize that there has been a real change in credit requirements, and we should make up our minds to meet these requirements and adjust our banking to fit them, not by unsound banking but by using the facilities available to us, by extending credit as nearly as possible to meet credit needs, and by being more elastic in the character and terms of loans we make. We should remember that the borrower—the prudent borrower—is just as cagey about trusting banks for renewals as banks are about trusting him for repaying his loan.

Since the Banking Acts of 1933 and 1935 we have very broad powers and facilities. Banks can issue money when their available supply runs low. With all these facilities and powers, and with deposit insurance where more than 98% of our depositors are insured against loss, there is no occasion to worry about bank runs or bank failures, no occasion for conducting your bank so as to be able to pay all of your depositors at one time. It is not going to be necessary, and if it should be, you would not be able to do it, except by printing money, and you would not like that.

It is true, of course, that with poor management banks can fail, but only the stockholders and a few large depositors can lose. Double liability has been done away with, and large depositors are usually informed. Being informed, they will not get hurt.

Possibly too many of us take the position that, law or no law, we are going to run our banks according to our own ideas, even though those ideas are outmoded. That may be all right, if in doing so we do not give further ground to lending by Government and finance companies, and thereby drive more good business away from the banks.

Furthermore, bank deposits constitute the country's working balance, and a proper proportion of this balance must be kept working if men are to work.

Credit has become a commodity to be sold at market. And no one can blame a business for buying its money through the issuance of long-time securities or through any other method which it prefers to borrowing from banks and relying upon renewals. There is no reason why banks should not solicit loans as energetically as they solicit deposits.

Because I think it to the best interest of all of us, the country and the banks, I am talking in the interest of term loans to business and industry by banks, made on a basis that, according to the best judgment of the borrower and the lending bank, will enable the borrower to repay the loan. Usually the borrower is the best judge as to how he can pay his loan, and his judgment should not be disregarded. He should not be required to give a note due in one year if it is going to take three years for him to pay it back, meantime relying upon renewals at the pleasure

of the lender. Nor should he be required to sign a note due in one, two or three years if he will require from one to 10 to liquidate the debt.

I speak from the point of view of the borrower, as one who has borrowed from banks for more than 40 years.

I also speak from the point of view of the lender. I know the problems of the banker also from an experience of 40 years. We should all remember that it is the money borrower who makes the mare go. He is the optimist. He buys and hires and builds. He sometimes makes mistakes, but he should be encouraged even so. I know the experience of the Reconstruction Finance Corporation. The law originally did not allow us to lend for longer than three years. At my request Congress removed the time limitation. Obviously if we were to help reconstruct the country it was necessary that our loans be for such length of time as would enable borrowers to adjust their affairs, and, while we allowed our borrowers the time they thought they would need, as much as 10 years, they have paid in an average of three years.

Furthermore, of all the loans that we have made, except loans to railroads, commodity loans, self-liquidating loans, &c., 87% has already been repaid, and there will be little, if any, net loss on the balance. I am speaking only of loans that banks could have made. The character of the security was such that few bankers would have looked upon it with favor, which goes to prove that it is not always the nicest package that contains the sweetest meat—that, given a chance, people will pay their debts.

Instalment loans are the best possible loans that any institution can make. Building loan associations and finance companies have proven that. The security gets better with each payment. Why is so much credit now being sold by finance companies? It is not the interest rate, but because banks would not extend credit on terms that the borrower felt he could undertake to pay.

I have made no particular study of the origin or growth of finance and factoring companies, but they have grown up like weeds in an uncultivated field.

When the automobile industry found their sales lagging because people could only buy automobiles on the instalment plan, and the banks would not provide the credit, they started their own finance companies. You know the result. They found it a lucrative business entirely aside from making a market for more automobiles. They make much more profit on the capital invested than banks make.

Every automobile has a loan value, whether it is one, two or three years old. Almost everything that people have has some loan value, and as James Peters of Manchester, Ga., said recently in addressing the Georgia Bankers Association, the particular security of the individual may not appear as attractive to the banker as the bonds of a millionaire customer, but it may be all the borrower has, and probably means more to him than the millionaire's bonds.

Diversified lending seldom hurts a bank. It is not the small or averaged size loan that causes bank losses. Title I loans of the National Housing Act prove that. Under this section of the Act, more than 6,000 institutions throughout the country made 1,456,000 loans between June, 1934, and April, 1937, aggregating $560,000,000. Two-thirds of these loans have been paid, and the average loss to the Federal Housing Administration has been only 2¼%. You know the nature of the loans and their purpose, and that the average rate of interest was approximately 10%, sufficient to absorb the less and leave a good interest rate. Bank losses more often come from the investment account or from loans made on security that the banker thought he would be able to sell by telephoning his broker. When the time comes, however, he finds it does not turn out that way.

Few of you like real estate loans. Yet you can have no better loan in your bank than a properly amortized real estate loan. Our bank laws place a perfectly safe limit on the amount that you can lend on real estate, but few banks make real estate loans in anything like the amount allowed by law.

Another thought about banking that might have consideration by the members of this Association is research, the sole purpose of which would be to find ways that banks could contribute more to the public welfare, as well as improve their earnings through putting more of their deposits to work. General Electric, Westinghouse, the chemical companies, the motor companies, the oil companies and many other industries have research departments, engineers, chemists, theorists if you please, employed to find new uses for their products, and to find new products. Banks have the money and the franchise, and most of the overhead. I suggest that they add ingenuity and a new approach.

The evolution of credit has come about so gradually that we have not realized it. Much of it came about through salesmanship on the part of smart investment bankers. When business found it could finance itself through the sale of stocks and bonds, it became more independent of the bank. One result is that the best credit risks are now able to get money at less than it is worth. This puts too much burden on the business that cannot finance itself through public issues, the average borrower, the fellow off of whom you live.

Once started, the investment banker found a great reservoir of money waiting investment—waiting to buy something—and some of them were none too scrupulous in the securities they sold.

Again, transportation facilities have so improved that merchants and distributors do not have to carry heavy inventories which formerly requared local financing.

History tells us that we never go back, that each upheaval brings about a change, and we go on from there. It is up to the banker to keep step with new conditions and see to it that no one crowds in ahead of him. Outmoded banking policies are just as useful as outmoded machines. I am aware that banks want to lend and are trying to lend. But the fact remains that the business of the country is being financed and will be financed.

One more thought about industrial lending. You buy an industrial bond maturing in 10, 15 or probably 20 years. If it is a security traded in on the market, it is more than likely that at some period before it matures it will have a quoted market of less than you pay for it. When this happens the examiner is apt to criticize it and the banker is apt to weaken on it. If conditions with the particular

issuer become adverse, and the credit goes sour, there is little you can do about it.

If you make a term loan direct, with amortization payments and other conditions which can properly be imposed, you may be able to get additional security when things go bad. At least you can nurse and manage your own loan.

I do not advise against banks investing in industrial bonds, but I am talking in the interest of industrial loans, those than cannot sell long-time note issues—the run-of-the-mine of business and industry. It might be profitable to compare your investment accounts, aside from investments in Government bonds, with your loans to business, and see which has yielded the best net profit over a given period. Probably there is little difference.

Another observation I would like to make is that I believe we have gotten entirely too far away from giving proper consideration to the record and reputation of the borrower. We look too much to the security offered and to how quickly it could be converted into cash when the borrower fails to pay. Every honest business is entitled to some credit, and when the banker feels unable to grant a requested loan he should be frank with the applicant and not turn him down for some extraneous reason, such, for instance, as the bank examiner. If we tell the man we cannot make him a loan because of the law, the bank examiner, or what not, he goes away displeased with his country because of its laws; he complains to his Congressman; and the banker knows that he has not been frank, that he has not told the fellow the real reason why he did not make the loan. And right here I should like to say that there is a great saving of time, and great virtue, in candor and frankness. I appreciate that examiner criticism and bank supervision have sometimes restricted credit, but supervising authorities are endeavoring to work out a uniform method which should relieve this.

We are living in a new era, a disturbed era. Countries are at each other's throats. Wars are going on. At the bottom of these wars, at the bottom of most wars, is business and trade expansion—economic conditions. We have a vital stake in world affairs, and it is necessary that we have independent leadership if we are to steer clear of these conflicts and maintain our world friendships and trade relations.

Our economy is geared to produce vast quantities of industrial and agricultural products for world markets. We require large importations of raw materials and tropical products. American investments are in every continent. We must remember, therefore, that if our democracy is to function effectively its citizens must take an active interest in all its vital problems and keep themselves fully informed. It is of the greatest importance that the American public continue its interest in world affairs. And bankers have their full share of responsibility.

In this connection it might not be inappropriate to say that too many bankers do not like the political side of our national affairs. They are critical of the President, of the Administration, of Congress. They do not like planned economy regardless of the size of the dose.

You did like the first few years of the Roosevelt Administration. Why? Because he saved the banks, those that were alive when he took office, and because he brought back a measure of prosperity. You may not like the way he did it. Bankers seldom like the way the Government is run.

However, you are now talking about better public relations. I met with some of you a few weeks ago, by invitation, to discuss public relations for banks. The first lesson in public relations is to learn to like people regardless of their station in life or the clothes they wear. Learn to like your Congressman. He is pretty good at public relations. In fact, he is the best public relations man I know; he must be reelected every two years, and incidentally he passes the laws under which you live and do business.

In closing I would like to tell you a little about how the RFC is getting along. While much of its work has been completed, new things keep coming along.

We are now struggling with the situation occasioned by the recent hurricane on the Eastern seaboard. This we do through the Disaster Loan Corporation, which was set up to make loans to people who suffered unusual losses due to the great floods in the Ohio Valley, January, 1937. Incidentally, in that situation we authorized a little more than 8,000 separate loans aggregating $9,500,000. We have disbursed $7,250,000 of this and $1,400,000, or approximately 20%, has already been repaid. These loans were made on terms and conditions almost entirely to suit the applicant, with no interest for four months, and 3% thereafter.

Prior to organization of the Disaster Loan Corporation, the RFC made something over $12,000,000 catastrophe loans, earthquakes, fires, &c. Nine and a half million dollars of these loans have already been repaid. Loans due to the recent hurricane will run to a sizable amount. In addition to making thousands of small loans of every imaginable character, it is estimated that there are 4,000,000,000 feet of blown down timber that must be cut and stored.

To meet the demand for mortgage money, we organized the RFC Mortgage Company about two years ago, and have authorized more than $200,000,000 of real estate loans.

To aid the Federal Housing Authority program we organized the Federal National Mortgage Association about eight months ago, and have authorized the purchase of 20,000 individual mortgages totaling $85,000,000. We have no delinquents to speak of either in loans by the RFC Mortgage Company or the Federal National Mortgage Association.

Through the Electric Home and Farm Authority we lend for the purchase of household and electrical equipment. This volume is not large, but helpful. We have loaned $14,000,000 to 91,000 householders for the purchase of needed appliances and equipment. The loans are made in cooperation with the utility companies, and the utility companies like it.

Through the Export-Import Bank we lend to aid in the exportation of agricultural commodities and heavy goods. A total of more than $150,000,000 has been authorized. Much of this was not used. Fifty million dollars has been disbursed and $33,000,000 repaid.

Our total authorizations to business and industry aggregate $338,000,000. Much of this was not used. The applicants found that they could get along without the money or were able to borrow elsewhere. About one-half of these loans have been authorized since late in February of this year, when the President authorized us to start lending again. At that time we wrote all of you bankers, every bank in the United States, asking for banker cooperation in making business loans, feeling that by bringing the banks and the borrowers together many loans could be made by the banks.

We also thought it would help to demonstrate the extent of the unsatisfied legitimate demand for credit. We sent letters and forms describing the basis for participation between the banks and the RFC in making these loans. Approximately 4,000 have been authorized since that time, and of this number, banks have taken participations in approximately 1,000. The aggregate of these 4,000 loans to business is about $173,000,000, of which the banks took participations to the extent of $36,000,000.

I am glad to be able to report that banks are showing a somewhat greater interest in cooperating with us in making these loans. However, one loan to every 14 banks could hardly be regarded as showing much interest. When the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Board and representatives of some of the State banking departments agreed upon a uniform method of appraising securities and classifying loans in examinations, a few months ago, we wrote the banks again, all banks, expressing the hope that with these new regulations and uniform procedure we would have extensive cooperation by banks in making business loans.

When we sent our participation forms, in March, to 14,000 banks, only 1% of them acknowledged receipt. When we wrote the second time, after the uniform examination agreements, again only 1% acknowledged receipt. That can only be interpreted to mean a lack of appreciation by bankers of the public demand for a more sympathetic attitude toward businesses that need credit, the border line cases that, due to years of depression, are no longer Class A

risks, but that are important to our whole economy. Congress will meet this demand if banks do not, and I know that most of you do not like Government lending—unless it is to some borrower to take up one of your frozen loans.

I am sure you will be interested to know that of the 6,119 banks in which we put $1,078,642,651 capital, more than one-half of the total amount has been retired. One thousand two hundred and one banks have paid in full. Eighty-four percent in number of the balance and 83% in amount are current in their dividend and retirement requirements.

Much has been said about banks taking RFC preferred stock capital that did not need it and, since we are being frank today, I might tell you that of the 6,119 banks in which we put capital, as far as we in the RFC have been able to figure, exactly 22 did not need the capital.

Aside from relief loans by direction of Congress, we have authorized $10,047,852,734.97 in loans and investments of all character. We have disbursed $7,150,432,375.22. We have paid interest at an average rate of approximately 2½% on the money we have borrowed to lend. We have paid our operating expenses of every character, and have accumulated an operating surplus of more than $200,000,000 which we think will be sufficient to cover such individual losses as are inevitable in so large an operation.

Industrial Freedom

By W. J. Cameron of the Ford Motor Co., Dearborn, Mich.

Mr. Chairman, Ladies and Gentlemen:

I am quite sure that I should not have piled on a train Sunday night, pounded along the railways until 9 o'clock this morning, if I had known I was only approaching this embarrassing moment to follow these two weighty addresses by President Adams and Jesse Jones. Perhaps you don't realize it, but that puts me in a very embarrassing spot. What can be said after what has been said, said so weightily? We already have meat enough for meditation to last us the rest of this week, and it is only to keep faith with my hosts that I go on now.

This subject was suggested to me: Freedom of Enterprise. And what is more interesting than the subject itself is that it should have occurred to any one to suggest it.

What has happened that in this, the 318th year of the Pilgrim settlement, in this, the 150th year of our free government, we should be excusing freedom of enterprise? Our habit is not to talk much of assured values. We talk mostly of newly-acquired values; some we hope to get or some we are in danger of losing. Freedom of enterprise has not been a subject of American discussion since within two generations of the American Revolution. It was for that the Revolution was fought.

The liberties our fathers spoke of was the liberty to develop their economic life. Their business was being interfered with, and they knew that no form of liberty was complete without economic liberty. From the time of feudalism, in which enterprise was shackled, to the time of capitalism, when it found full scope, no one has ever doubted that enterprise was essential and indestructible as a part of our way of life. So what has happened?

A man from present-day Europe, not to speak of a man from Mars, seeing this subject announced in America today, would ask: "What is in the wind? Are they just acquiring it, or are they just losing it?"

To discuss this question along the lines of familiar political complaint would be very easy, so easy, in fact, that it is very easy to make us rather wary. We know all that can be said about attempted political interference with American enterprise, and we know that what has been said is true. But when we have gone all over that again, it doesn't fully explain, it doesn't fully satisfy.

We are reminded in some sort of palliation that every phase of liberty has declined in almost every part of the world. There is less religious liberty in the world today than there was 25 years ago. There is less freedom of speech in the world today than there was 50 years ago. There is less political liberty than at any time since the American Revolution, and less academic liberty than at any time since the scientific spirit of free intellectual inquiry first came to birth on this planet. May we say, then, that this reported decline in freedom cf American enterprise is part of the general decline? Not until we have at least attempted to discover what is behind these other losses of liberty.

You may put it down as an axiom that no people, being religiously free—and, by the way, I never was a minister; I used to teach a Sunday School class, and because I refused to fill out these blanks that Who's Who send around, someone jumped at the conclusion that I was a minister. I am glad to have an opportunity to correct a banker in something. Mr. Adams had a very good authority in another edition of Who's Who, but I am not a minister, and when I speak of religion, please don't think that I am trying to put anything over on you.

But it is a fact that no people, being religiously free, ever lost their religious liberty until they began to lose their religion. It was their religion that made them free. It was not their freedom that made them religious. And no people have ever sffered the loss of free speech until first they began to lose the speech of freedom. And the intelluctual liberty of the thinkers of any people has never been challenged until first the academic minds, as in Germany, prostituted themselves to serve something less than intellectual truth.

Just look at the countries where these lapses of liberty have occurred and see if they were not everywhere preceded by the conditions I have indicated. We never lost a single one of these values to any outward pressure until we began to lose them within ourselves. There is no use taking time to discuss freedom of enterprise unless we are willing to probe it to its heart and accept what we find there. If anything has happened to threaten the freedom of American enterprise then something has first happened to American enterprise itself, for we did not become an enterprising people because we were free. We became and remained a free prople because we were enterprising, and if we are becoming less free, it is because we are becoming less enterprising.

A free State lives not by the brilliance of its rulers, but by the enterprise of its citizens. The less enterprise, always the

less freedom, and the more enterprise the more freedom, always and everywhere, including the United States, in this year 1938.

If you take the geographical globe, spin it beneath your fingers, you will see how true that is. The only free nations that pass beneath your eye are the really enterprising nations, the few that are left. To many that hath been given, and from many that hath not has been taken even that he hath.

Since the beginning of the Christian era about forty billion persons have lived on the earth, of whom one billion have been people of enterprise, and the subsequent history of the world is the history of those people. They conquered the world not so much by force as by providing better means for more secure conditions in life. The line of liberty, political and personal liberty, has followed the line of that enterprising one billion, to which, happily, we belong. Happily, I say, for though the spirit of enterprise imposes burdens heavy to be borne, our nature is such that we would rather be burdened and useful than be free and untroubled in an animal sort of way, and useless.

When we speak of enterprise, we perhaps imply a too superficial meaning for the word. We think perhaps exclusively of commercial undertakings, or of some particular way of doing business.

Business is but one small part of the field of enterprise. Business enterprise is bound up with every other form, and at most is but one of the important results of the Nation's total enterprise. Enterprise is a native energy, energy to perceive possibilities, energy to perceive the thing to be done, energy to take it in hand, energy to find our greatest satisfaction in using our energy, and, as I intimated a moment ago, it is not a common quality in the world. Among our own people it is not even an equal quantity. It is an energy of the spirit that enables men who have it to view difficulty as a challenge, enabling them to rise like a kite against the winds. And its superb quality is its instant response to obstacles by adjusting efforts to overmatch obstacles. Call it a gift of God; call it a gift of nature. It cannot be legislated unto any people that never had it and it cannot be legislated out of a people that have once possessed it.

That is one fact we need to know and keep in mind about enterprise. We have it or we don't have it. If we have it, no power can denude us of it and if we feel that something has ahppened to our freedom in this respect, our first inquiry ought to be: What has happened to American enterprise? It is fundamental that if heretofore we have been enterprising, it is not because we have been free to be enterprising. We have been free to be enterprising because we were enterprising. It is as simple as that.

I will go as far as any man in agreeing that the political climate has an inevitable effect on a nation's business. In the American conception, the function of government is to maintain a condition in which people may defend their collective and individual life in an atmosphere of freedom; a condition where every man may sit under his own vine and fig tree, none daring to make him afraid. But even amongst a free people, even amongst a people that under no circumstances will surrender a single item of their freedom, an adverse political attitude will do much to chill and constrain constructive ardor. And we need go no further for a comparison than to Canada and the United States.

Now, let's leave the Government out of this. We are using that term "government" all too loosely in this country. We say the Government does this and the Government does that; the Government should do this and the Government shouldn't do that. As a matter of fact, the Government does very few things of which we complain because they are not within the province of the United States Government to do. They are being done by the political administration of a Government, a group of men for a moment using the power of the Government. But let's not confuse these two things. The Government is a great temple of covenanted liberties through which you and I can walk along the aisles of the constitution and our history, and the administrators are the priests serving in their courses as selected by the people in that great temple. They must never be confused. In Canada you may talk of the Government as Mackenzie King and in England you may talk of the Government of Mr. Chamberlain. In the United States you can't talk of Mr. Hoover's Government or Mr. Roosevelt's.

And even in making this distinction, I beg you to believe that I am not speaking in a partisan political sense. Nothing that we say along these lines should be construed in that manner. Just in the interest of frankness, I am willing to confess that I am a Republican, but I never saw the time when I felt one moment's doubt about trusting the United States to American Democrats, and I am so glad to see an American Democrat rear his head today that I could go out in the fields and sing the doxology.

I am glad to say that in the State which has given us two such great servants of public commonsense as Vice-President Garner and Jesse Jones.

So we need go no farther than Canada for this comparison. Merely cross the border into the Dominion and you find yourself in an entirely different, a freer economic climate. And it is rather startling when first you sense it. Here are two peoples very much alike. They have the same fundamental conditions, the same type of minds, the same innate spirit of enterprise, they live in the same economic zone. Neither of them is protected against the economic forces that influence the other and when an adverse or a favorable economic wind blows upon us, it blows the same kind of winds upon Canada, too. When good fortune or misfortune of purely economic origin overtakes Canada, it overtakes us, too. We both are nourished by the same arteries of life. And yet, at the present moment and for some time, these two countries have presented quite different economic pictures. I will leave it to wiser men to say whether the occurrences of last year were a consequence of the continuing depression or whether they were something new that needs another name.

It reminds me of those styles of cars we had several years ago, you may remember, whose bosoms were so like their bustles that you never knew whether you were being run over or backed into. Some of us didn't know whether this was the old one coming back or a new one coming in.

But when Canada saw this condition descending upon the United States, she faltered, wondering what fresh calamity was about to strike, until she perceived it was only another case of Yankee jitters, whose cause she immediately and correctly diagnosed and immediately she resumed her up course. General business in Canada declined about 12%, Ford Motor business declined about 5%, but in a few weeks recovery was made and the rise resumed while we of the United States kept plummeting down to depression depths, swift and sharp and bitter.

Had the cause been economic, both countries would have shown a corresponding experience. That they did not indicates that some other than an economic cause was operating. What was it? Well, in Canada they have a Canadian Government that keeps on being Canadian. The people are utterly without concern on that score. They don't change over every weekend. In Canada, the man who can make a payroll for five, or a hundred, or a thousand men, is respected as a builder of a nation. They actually respect their businessmen and industrialists in Canada.

We at Dearborn see something of that difference. The head of the Ford Motor Co. of the United States is known variously as an economic royalist and a public enemy, is subjected to various petty forms of persecution; whereas the head of the Ford Motor Co. of England, who hasn't done one-thousandth part as much for his country as my boss has for his, is called to Buckingham Palace and made Lord Perry of Stock Harbor. Over there they give them titles, and here we call them names.

Business in Canada has its burdens as well as we have here —tax burdens, legitimate burdens growing out of Canada's part in the Great War—but business has not had the burden of wondering what new political misconceptions may be sprung upon it tomorrow. It has been free to devote itself to its task, without standing in fear or standing on guard about what might be done to it from within its own national household. Viewing these two countries side by side, it is not at all difficult to show that political interference or political uncertainty from any cause can do much to quench the free and zealous action of the spirit of enterprise.

Well, that sounds good to many ears, but what happened to us that interference and uncertainty could be made to afflict us in the field of our enterprise? Is this just our misfortune, or is it our fault? Why did it happen to American business and not to Canadian business?

I trace it directly to the long, long habit of American business in the past to rely on political assistance to relieve it of the full burden which the spirit of enterprise lays o: all of us. American business never cringed in fear of what politics could do to it until it first formed a hope of what politics could do for it. And the answer to both of these things is zero.

If, as I know we all agree, the pulse-beat of the country is enterprise, then the pulse-beat of enterprise is competition. But the alliance between tired business and acquiescent politics has had as its object the restriction of competition and restriction of competition is restriction of enterprise. In that respect our supposedly most enterprising citizens have sometimes unwittingly been the ones to betray the spirit of enterprise. Need I specify? Isn't our history full of it?

Gentlemen, this betrayal has been so continuous that were it not for the fact that the spirit of enterprise is born anew in each succeeding American generation, we would have been swamped long ago. We need look back no farther than the NRA, a thing concocted by a section of American business for the purpose of establishing combination as against competition. Had the repeal of the NRA been left to Congress, Congress would have found powerful business influence arrayed against that repeal.

We were getting tired of enterprise, what it entails, and so for a time we lived in danger of losing some of the freedom our enterprise had gained. To say this is not to join in the common and ignorant hue and cry against big business. The same tendency precisely is to be met in little business. In one State of the Union, up North, the retail automobile dealers have persuaded the Legislature practically to destroy competition in their field. Laws have been enacted at the invitation of business men, to prevent any man entering the business of retailing motor cars under the very conditions which permitted every man now in the business to enter it. Their enterprise got them in because free conditions obtained, and the door was open. Now they propose to close the door against the free use of the same enterprise by others. Indeed, they have closed the door by law.

That is a picture of business holding out its hand inviting the political shackles. While we are talking freedom of enterprise and its restriction, let us frankly inquire why these attempts have been made on our freedom. Who opened the door to them? Who first broached the idea? And let us also ask whose enterprise we wish to keep free, our own or everybody's, for in this country it is everybody's or it is no one's. Without competition, there is no free enterprise.

And so I could say also that while enterprise may be discouraged, it is never killed, because there is always another American generation coming on. Conversely, it may be encouraged by being permitted to see and enjoy its fruits. I wish we had a better word for it, but we shall have to say that enterprise lives by the fruits that we call profits. Not all that we call profit is profit. You know that, and not all profit is private profit. The great profit of American business always has been social and not individual at all. But it is impossible to separate them. Social profit is the sum of private profit.

But that form, that special and necessary form of satisfaction, of stimulus, has been seriously interfered with. It is like restricting a growing boy to just the amount of food that will replace the energy he lost at play this morning. It leaves him no margin on which to grow. Profit is the margin of sustenance that enterprise grows upon. And that point indicates another blind spot in the political vision of business. It assumes that the Nation has attained its growth; it assumes that productive business has reached full stature. It takes precisely the position taken by British politicians prior to the Revolution, that progress can be pegged, always a fallacy in an infant civilization like ours, whether it may be 1750 or 1938.

Today the increment a growing country needs is the vitamin called profit. You can take away all the eggs, month after month, without discouraging the hen, for the hen doesn't live on her eggs. But you can't take human beings' earnings away from them without doing something to the internal springs of action.

The WPA'ers are not the only ones working for the political administration. The American business man is working for the political administration in a way that makes the WPA'er a lucky gentleman in comparison. We are all working where we shouldn't be working.

Nevertheless, we must look within enterprise, not outside of it, if we would discover what has happened to it. Enterprise is free always. If you have any at all, it is free. If you say your enterprise is not free, I say something has happened to your enterprise, to the quality of your enterprise. And, very regretfully, I have seen our enterprise dwindling on every hand. The willingness of the business community to accept present position of so-called social amelioration, the readiness to believe that if one administration should not be conspicuously successful in feeding the people social soothing syrup, another administration, using another technique, may be, is one of the most discouraging things I have seen since 1929.

Our acquiescence in this breakdown of thought, that some great statesman will arise to check, is very regrettable for we as business men might have borne an honorable part in giving it constructive construction.

Here we are, a group of citizens whose experience should have taught us, if it had taught us anything, that the only possible road to social justice, the only possible road to the decent standard which we seek for everybody, is the production of more wealth.

We are not a poor nation, and yet we are. In comparison with other nations our very poverty seems like riches. But in comparison with American possibilities, our very riches seem like poverty. We have not yet done in this country anywhere near the primary job of full supply. The inequalities that exist are not caused by unjust distribution. It is not a case of having enough and having it badly divided. The most just system of distribution would not only result in more justice, but, what is much more to the point, it would not result in increased possession for any one, simply because the wealth in things we need and use to live by does not exist. It hasn't been produced. Yet, as if we were attempting merely to give the impression that the business community is social-minded, we acquiesce in attitudes and in programs which we of all people ought to know are preventing the very production that this country needs.

In doing so, we are acquiescing in keeping the country in its present half-way position. And, gentlemen, if that is not the very denial of enterprise, then what would you call it?

Our one hope of a full and generally acknowledged condition of social justice is in the continuance and increase of American enterprise in the production of usable wealth. Only enterprise can accomplish it. I mean business enterprise. It is our business to preach that and practice it. We can rescue our precious endowment of enterprise and we can drive the fallacy-mongers from the temple, and start the real movement for social justice, simply by resuming our American fundamentals.

It is not a case of going back to American fundamentals, as we say, for American fundamentals are still so far ahead of us that we shall have to run to catch up with them.

Let that part of the business community which is deluded by the present political and social fallacies go its ways if it wants to, but for the future's sake and for our country's sake let that part of the business community that knows better begin to think of enterprise as a profound present national necessity, which you have if you use it.

That is the only way I can look at this subject. It is nice to talk about enterprise. It is better to show a little of it. Many of us feel now for the first time in six years that we are really justified in expecting American business to show its mettle. The time for boasting is past. American business has a most remarkable record of achievement, but forget it. Forget it, gentlemen. The time for complaining is past. All our complaints are just, heaven knows, but complaints dig no potatoes. Forget them, gentlemen.

This present moment seems to me to be a crucial one for business because business is up against it as it never has been up against it before, because now it is up against itself. It relied on political help, it relied on crazy campaigns of hysterical advertising urging people to buy, it relied on some magical upturn out of the skies, it relied on every form of hypodermic to induce artificial stimulus of trade, and all of

them have collapsed, which is the best thing that could have happened.

There is now not a single hurdle left between business and its own job, the job only it can do, and which has not been done because it has not done it. It would be worth probably $25,000,000,000 of national income in the next 18 months if the fact could be hammered into the American business consciousness, the fact that business is not coming back, but that business must be brought back in pieces, bit by bit, and we can well afford to tear down all the Chamber of Commerce campaign bunting and gag all the temple orators if by that we can be brought to see that enterprise at this moment consists of rolling up our sleeves and our trousers, and grubbing in the ground for the business that has vanished. The businessman's job is to sell, and he never fulfills that job by merely asking other people to buy. He has to sell when no one wants to buy, as the doctor gives a stimulus to the heart that needs help.

This delusion of waiting for the comeback is over. We have entered a period when uninspired—no more pep, no more hypodermics—deliberate, daily plodding and digging is the only thing we have left to rely on. And we may recognize that gratefully, for it always was the best thing we had to rely on. But we didn't know it.

We are going to bring business back by the same old application of energy to objectives that the farmer shows when he puts himself behind the handles of his plow, and he gets to plow his field.

Our upturn will come in the same way that those furrows come, by dogged, uninspired plowing that turns it up. And that is the sort of enterprise for which our present situation calls.

When Two Generations Meet

By Dr. Adam S. Bennion, Assistant to the President, Utah Power & Light Co., Salt Lake City, Utah

In introducing Mr. Bennion, President Adams said:

Our first speaker this morning is an educator, an author, and a business man. He received his education at Columbia University and the University of California, from which place he received the degree of Doctor of Philosophy. He is a friend of youth, and this morning there are here a limited number of students from Rice University to listen to the message from this good man. Adam Bennion is a pioneer speaker in a new cause. It was he at a Regional Conference at Des Moines, Iowa, who made the first talk to a meeting composed of depositors and bankers. He told the story that those people should know in a wonderful way.

Bank depositors—many of them—we have been told came that night to scoff. They remained to applaud him. So this morning it is my pleasure to introduce to you this friend of mind from Salt Lake City. He is assistant to the President of the Utah Power & Light Co. of Salt Lake City, and will speak on the subject, "When Two Generations Meet."

Mr. Bennion's address follows:

When two generations meet—yesterday shakes hands with tomorrow through the doorway of today—and civilization is in the making.

Who was it said, "Physically each generation begins as every other one has begun; but socially each generation begins where the preceding one leaves off." The evidence is conclusive—whether we look at modes of transportation or of communication—whether we observe the harvesting of grain or the changes in woman's attire. Those of us who thrilled to the waltz and two-step as we smiled at our parents in the minuet and the quadrille, are smiled at in turn by a generation which responds to the rhythm of the swing. One has only to watch the bringing up of a grandchild to know that momentous changes have been made since his eldest came into the world.

Ox team—horse and buggy—auto—and plane—what acceleration—and what consequent change of outlook.

It is too much to expect different generations to synchronize perfectly. Age fears for youth with its dash and drive and abandon; youth wearies of waiting for age to pick up the pace. All too frequently the preachment of age is matched by the revolt of youth.

You remember the father's remark to his adolescent son who failed to assume responsibility: "Son, when Lincoln was your age he was making his own way."

"Yeah, Dad," countered the boy, "and when he was your age he was President."

These relationships, natural in normal times, are heightened in periods of stress. Crises often tend to make everyone critical of everyone else. Every poor hand prompts a call for another shuffling of the cards.

Of course, this is no new phenomenon. The relationship is as old as history. Cain no doubt grumbled a lot as he pondered his parents' going out of the garden business to take up dry farming. And Eve must have observed to Adam that his son didn't do any credit to her folks.

It is strange how often one generation is out of sympathy with another. If a youth drives his car wildly and cracks up in the process, we say, "That is youth." If one of the older generation is disturbed and becomes wholly unreasonable, youth says, "That is age."

I have just returned from Washington, D. C., where I had the opportunity to watch scores of young men preparing themselves for professional pursuits. A typical group works from 9:00 to 5:00, then goes to law school from 5:00 to 7:00, and then after dinner studies till well beyond midnight. Odd that we hear so little about groups like these.

There are students in this institution here at Rice who are doing much the same thing. The President of this institution pays this tribute to his students:

"A great many of our students are working their way partially or wholly through college. For their assistance a considerable number of endowed scholarships and several loan funds are available. Many of them have regular employment, while others depend on odd jobs, employment and jobs alike in such variety as only a large and growing city can afford; for example, laboratory assistants, electricians, carpenter's helpers, janitors, machinists, stenographers, clerks, truck drivers, newspaper reporters, assistants in recreational and settlement work, direction of play grounds, boy scout offices, boys' department of Y. M. C. A., physical training and clerical work in Y. W. C. A., draftsmen, doctors' office workers, insurance salesmen, workers in filling stations, medical clinics, hospitals, night assistants in funeral homes, night telephone operators, night hotel clerks, hotel bell boys, making, repairing, and selling radios, members and leaders of orchestras, music teachers, party decorators, window washers, and so on almost indefinitely."

How frequently youth points to the business men, particularly the banker, as sitting in the seat of royalty with plenty of money, a sheltered job handed to him as a gift of fortune. My best answer to that kind of description is the record of Orval W. Adams, President of the American Bankers Association. How America needs to be reminded of stories such as his.

Born the son of a railroad engineer, he lost his mother when he was 16. He began his banking career at 19, working in the First National Bank at Logan for $35 a month. He posted individual books by hand and often worked into the wee hours to strike the balance. Janitorial work was part of his job. He outgrew that assignment and was made Cashier in the Hyrum State Bank, a small bank in a small town. Successively he was promoted to positions in the Merchants Bank in Salt Lake, Farmers' and Merchants' Bank at Logan, Thatcher Bros. Bank in Logan, the Marriner Eccles' Bank in Ogden, and finally to the Utah State National Bank in Salt Lake City. He has come to the highest position in this organization, but he has come to it by the sweat of his brow.

The same thing is true of Harold Stonier. He has come into one of the most responsible positions in America by much the same process. No pull or preferment brought him to his distinction. He laid the foundation of fact and principle. He struggled through the years to achieve his highest degree. He mastered the field of economics by careful and vigorous work. Back where you students are he was like you. He followed the only recipe which ever can lead you to positions like his.

It will be a great day when we can approach these problems as between two generations in the spirit of Joseph K. Hart:

"Once we dictated to youth, and made irreparable mistakes—
"Now we abdicate all direction, and make equal mistakes—
"Youth wants age neither to dictate nor to abdicate, but to share, to participate in a common life. Dominated by age, youth sulks and rebels—and destroys itself. But when age and experience abdicate, youth spouts and spumes—and likewise destroys itself. It is only when age . . supplies with broadly impressionistic strokes the outlines of the answers life has accumulated through the centuries that youth has the materials out of which to make its own times."
("The Plastic Years and the Open Mind in America," published in the Survey, Sept. 1, 1926.)

This is a unique audience. Here sit the students of Rice Institute: Young, ambitious, eager—wondering, no doubt, just what America holds for them. Here sit representative bankers from every State in the Union; rich in economic experience— and they're wondering, too—not only as to what America has in store for them as well as for these youth—they're wondering whether this American scheme of civilization can survive—or whether it must go the way being pursued by so many European countries.

It is my privilege to ask you two groups to join hands today in the spirit of freindly understanding to look some of America's economic problems squarely in the face. I am aware that you can approach these problems in one of three moods: antagonistic, indifferent, or cooperative.

There are already altogether too many antagonistic groups—groups which think the worst of one another—secretly hoping for the other's failure. What a travesty on intelligence—politicians condemning business men for being selfish, grasping, or even corrupt; business men attacking politicians as incompetent, irresponsible, or even dishonest. Antagonisms stir up hatred—they do not work out constructive solutions to our vexing problems.

But more fatal in many ways to working out an intelligent approach to vital issues now before our Nation is indifference. Unconcern is one of democracy's greatest menaces. The voice of the people may be the voice of God—but disgruntled silence is born of the Devil. The great need in American Government today is more active and intelligent participation. More enlightened thinking and more reasonable expression of that thinking.

And, thirdly, as typified by this gathering, we need the cooperative spirit as among various groups in American life. That life is now so complex—so interdependent—that no damage can be done to a single aspect of it without doing hurt to the whole structure. America has been built by five great institutions: the home, the school, the church, industry, and the Government. No one of them can say to the others: "I have no need of thee." Neither can any one of them intrude into the field of another and presume vicariously to satisfy its functions.

The crack-up of eight years ago has had dire results. It was so serious that the existing order of this was condemned as having failed. Much of the responsibility was laid at the door of industry. The capitalistic system was indicted.

Then came an elaborate system of recovery. Emergency measures were hurried through. Much good was accomplished. Whatever history's final judgment upon the New Deal may be, its pendulum swing promises to secure for society; some guarantees against the ills of unemployment and old age; some program for the review of working conditions, including hours and wages; some provision for collective bargaining; insurance for people's savings; youth camps and vocational schools to which young men may go who can temporarily find no place in industry.

But much emergency legislation threatens to become permanent—both in fact and in spirit. Fascism, Naziism, Socialism and Communism, sweeping various corners of Europe, find echoes and champions in this country. Social control becomes more and more vigorous and constantly seeks new domain.

Note these two observations: one from an educator of distinction, who sees the extension of social control—even to the point of operation—to be inevitable; the other from a candidate for the United States Senate, who voices vigorous protests against developments which he claims are already too real:

"Clearly a prolonged period of invention and experimentation is to be expected during which the American people should strive to learn from the experience of other countries as well as their own. But the object of the present work is not to propose solutions to such problems, but rather to indicate the direction in which democratic society must move and to discover the limits within which the work of education may proceed.

"This does not mean, however, that experience already gained suggests no immediate steps to be taken or lines of development to be followed. In fact some steps have been taken, and others are clearly on the way. In the case of certain services which are peculiarly identified with the general welfare,

such as the mails, highways, education, water supply, and sewage disposal, public agencies long ago assumed large or major responsibility. Provision of medical care and the promotion of scientific research are similar services which are apparently headed in the same direction. It is also clear that the community must intervene in the conservation and development of the basic natural resources of land, water, timber, and minerals which are essential to the perdurance of society and which have been so grievously exploited by private enterprise. Almost equally clear is the mandate for the socialization in one form or another of all those economic functions which tend toward monopoly, such as communications, transportation, power, and banking. Beyond this, society should move as far as is necessary to introduce sufficient general planning and coordination of the total economy, including international commerce, to prevent the visitation of those twin destroyers of free institutions—war and depression."

("The Prospects of American Democracy," by George S. Counts, pp. 86-87.)

"New Dealism—in the name of progress it overrides the fundamental restraints of our constitution and nourishes disrepect for that noble guide of our liberty; in the name of emergency it perfidiously usurps the legislative functions of Congress and disparages that department of Government; in the name of modernism it belittles and shackles the Supreme Court and fosters the opinion that it is an obsolete tribunal; in the name of planned economy it aserts control over money and the value thereof, over credit, interest rates, and financing, over the hours of labor and the wages of toil, and jurisdiction over where a stalk of wheat shall grow; in the name of equality it teaches that ownership of any considerable property is an over-lordship harmful to the rights of man, and so removes the chief incentive to labor; . . . In short this New Dealism encourages lawlessness in Labor, frowns on enterprise, frustrates individual effort, handicaps frugality, condemns profit and capital, upholds recklessness and extravagance as if they were economic panaceas, quashes industry, promotes a disgraceful parasitism, and places a premium on mental laziness and physical idleness."

("What Americans Must Decide," by Claude T. Barnes, KSL10-20'38.)

No one can consider America's present condition free from alarm: millions of unemployed; tremendous and increasing governmental debt; unsettled and unhappy labor-capital relationships; farm prices disastrously low.

No doubt, many of you young men and women will be appealed to, to scrap the whole process called American procedure and turn to hopeful foreign experiments. Before yielding to such appeals, let's evaluate the American result and then let's attempt to offer some constructive suggestions for improvement under the pattern already followed here these 300 years.

Whatever else may be true, America now occupies the position of wealthiest nation in the world. Her achievements and her standards of living have thrilled critics from every corner of the globe. What does America exhibit to these visitors? 6,500,000 farms worth $58,000,000,000; homes valued at $102,000,000,000 to house 30,000,000 families; one-half of those homes are "owned" homes; personal property of $50,000,000,000; 3,000,000 miles of highways, 750,000 of which are hard surfaced; $30,000,000,000 in pubic buildings an annual circulation of 450,000,000 volumes in 6,000 public libraries; 250,000 miles of railroad operated by a $26,000,000,000 industry; 30,000,000 children in school, more than a million of whom are in college; a people enjoying the use of 25,000,000 autos: 19,000,000 phones: 30,000,000 radios; 44,000,000 bank depositors, with $24,000,000,000 in savings; 64,000,000 policyholders, with $110,000,000,000 in insurance.

Whether you stand atop the Empire State Building (New York City) and marvel at that city of cities with its 7,000,000 people, or traverse our unending plains with their farms, their cattle, their wealth—

Wherever and however you view this land—it is the Promised Land—"Blessed above all other lands." It beggars comparison. No such nation could have been built through a system as vicious as some of our agitators would have us believe ours to be.

"By their fruits, ye shall know them."

Judged by that criterion, the American tree is the Tree of Life. Nor is her wealth merely material. Spiritual riches are yours beyond compare: freedom of opportunity; freedom from caste limitations; freedom of speech; freedom of worship; freedom of franchise; freedom of enterprise.

Your own experience—your freedom to plot your own course—with no let or hindrance to your aspirations—those things tell you that America offers you a heritage which you would exchange for none other in the world.

But—you say—there are serious ills. And of course there are. Harsh things have been said of business of late—of utilities, of railroads, of banks. In the public mind they have been not a little condemned. In spite of their phenomenal contribution to American civilization, they have come to be regarded altogether too generally as inimical to the best interests of the so-called "common man."

Mistakes have been made, of course they have. For one thing, too many banks have been set up. Whereas in 1865 there was one bank to every 20,000 of population, in 1927 there were six to every 20,000. Fortunately, by 1937, the number had been reduced to two and one-half per 20,000.

Then, again, all too many banks have been launched with wholly inadequate financial underwriting. Furthermore, men ill-equipped for managerial functions have undertaken to run banks.

Nor is that all. Even financially competent men have failed to appreciate the point of view of the customer and have, therefore, been unmindful of his feelings. Only recently has bank management turned its attention to the problem of human relationships.

Ills?—There likely always will be in a civilization as extensive and complex as ours. No alibis here intended—but the World War was such a tremendous upheaval that all human institutions were thrown out of balance. World trade was demoralized. Production and consumption got out of control. Then, too, extended mechanization of industry proved temporarily disturbing.

Ils?—Yes. But because of them shall we forfeit our American tradition. Because the carburetor is clogged—shall we junk the car? Frankly, I don't fear that we will leap to Fascism or Communism—not directly. They are too repugnant to the American spirit. But under disguise they may sneak in upon us under such harmless sounding terms as planned economy; government ownership; social security.

Let's have no misunderstanding. We cannot be reactionary. We cannot hope to go back to the "good old order." But clearly, we have been experimtenting long enough. Let's accept such legislation as has proved itself workable. But let's get back to those fundamental procedures which not only have lain at the foundation of all our building to date—but which by the very nature of things must underlie all successful future building.

At some hazard, I risk the following suggestions if we are to keep America American:

1. The Government should govern more, and rival less. "To provide for the common defense," and "to promote the general welfare" are both comprehensive expressions. The problems of our schools, of our roads, of our army and navy, of our law enforcement—these and scores of other problems are ample to occupy the men charged with governing us. The Government ought not extend its operations into competitive fields either to make or to destroy profit. Uncle Sam can be a wonderful umpire. We need him to officiate He should set up the rules and see that they are enforced. But when he aspires to be a star performer—when he puts the ball under his arm and runs for a touchdown—well—he may temporarily get the cheers of the bleachers—but he'll spoil the game. There is neither any contest left nor any impartial enforcement of the rules.

2. The American people should no longer have thundered in their ears that profit is criminal. A reasonable profit must always lie at the foundation of successful business. When a firm doesn't make a profit, it no longer stays open. And when it closes there are fewer jobs for men. Such an institution joins those thousands of institutions to which no monument is ever raised. Men can be employed and wages paid only by profit-making business.

3. Interest is merely wages paid to money. Money won't work for nothing any more than men will. And when money won't go to work, men cannot. High wages for men—and abnormally low interest for money—just don't make a partnership.

4. Mere spending does not create wealth. Distribution may be an enticing idea, but it doesn't produce the wherewithal to be distributed. A homely illustration will make this point clear. A lad had brought his buddies into the kitchen for a snack. As they went to work on the cookie jar, the boy could see that the cookies were fast disappearing. He called out, "Ma, we better be bakin' some more cookies."

Frankly, the time has come for Uncle Sam, or some of the children to suggest, "Ma, we better be bakin' some more cookies."

5. Taxes, likewise, are convenient distributors, but they don't produce wealth. In fact they can easily discourage the attempt to produce it. Why work and risk if the great share of what you make is taken from you in taxes? We are discovering not only that there is a point of diminishing returns in the matter of taxation, but we are seeing the force of the adage, "The power to tax is the power to destroy." The people, too, are coming to see that finally they are the source, as well as the victims, of taxes. Business may collect them, but by and large they find their way back to the consumer. In most instances he is the source of all revenue—where else could taxes come home to roost.

6. Too much legislation stifles business. Regulation, yes—but interference is like a financial hurricane—it drives money into the cellar. When threats and innuendos create doubt and suspicion business is not only haltered, but hobbled as well.

7. We cannot borrow ourselves out of debt any more than a man can drink himself sober. If I have spent my money in unwise and unproductive undertakings, to lend me more money to follow up those same undertakings is to invite financial disaster. Budget balancing isn't popular—and it isn't easy—but it's still sound.

8. Adequate care for aged and needy citizens is altogether a worthy ideal, but $30 a week hysteria will wreck any commonwealth. Colorado's $45 a month not only has proved itself unworkable—it has threatened the breakdown of some of the State's finest institutions. Emotional enthusiasm needs always to be proof-read by hard-headed commonsense.

As we close this conference of two generations—may I suggest to you bankers, that you may well give your serious attention to two matters:

1. See to it that your employees—from top to bottom—understand not only banking principles and techniques—but also people, and how to cater to their interests.

2. See to it that you have made clear to your depositors and to the public at large whose money you handle: why your first obligation is to safeguard it; what constitutes good credit risks; what determines interest rates; the dangers of inflation.

Discover a method, such as sitting down with each 18th customer, which will reveal to you just what is on your customers' minds.

Standardize your practices, but humanize your approach.

And to you students, may I venture:

Don't be stampeded by some dreamer's pet scheme;

Don't follow the tangent of some one author's solution;

Read generously in recognized substantial volumes, such as are listed in Martin's "Philosophical Background of Current Economic and Social Problems."

And finally, before you risk losing your American heritage, ask yourself which other country you would choose against your own in which to live.

You young men and women know the traditions of Texas better than I. The heroic sacrifice of other Texans at the Alamo, 102 years ago still stirs your souls. "Remember the Alamo" not only inspired the men after whom this city was named—that phrase must inspire you to pass on to still another generation—America—A Land of Freedom—A Land of Opportunity—The Land of the Stars and Stripes—as that land was passed on to us and to you.

Let's hope that, when two other generations meet here, they can still meet with all the liberties of a democratic people.

Constitutional Government

By J. Reuben Clark Jr., Chairman of Executive Committee, Foreign Bondholders Protective Council, Inc., New York, N. Y.

I trust I may be pardoned any seeming warmth in what I shall say, as likewise any nearness to mere rhetoric, but I feel so deeply the things I shall talk about, they seem to me to deal so closely with the liberties of ourselves and of our children after us, that I cannot speak of them objectively, nor with judicial peace and calm. So I must crave your indulgence.

I come to you, members of a group who, because of your power and your vulnerability, stand in a place not unlike that in which stood the framers of the Declaration of Independence, a group who said: "We must all hang together or we shall hang separately."

The Master asked: "What shall a man give in exchange for his soul?" May we not ask, in all reverence: After his soul, what hath a man that he will not give in exchange for liberty?

And what will greed and ambition and love of dominion not grasp; what have they ever held safe from destruction; what have they ever marked as too sacred for their profaning hands, when they have swaggered forth in search for power?

When liberty is torn away from us, then slavery swiftly comes in, and first blinds us, then crushes us. These are not attempted oratorical phrases; they are solemn, world-old truths.

I ask you to forgive me for the blunt plainness with which I shall speak. I shall try to speak only truth, but sometimes truth, gaunt, weary, torn, haggard from her battle with wrong, may not outwardly seem beautiful to look upon, until you catch the eternal gleam of righteousness that flashes from her eyes, and hear and understand the saving wisdom that falls from her lips.

If you keepers of the people's hard-earned goods are to meet the trust which the people have placed in you and which you have voluntarily taken on by receiving their money, you must guard not only the gain on the funds you have, but the funds themselves. Dividends and interest, we, the people whose money you have, surely want, but we want also, and more, that our principal shall remain safe and unharmed. Some have taken too short a view. When wind and storm and snow and cold come, the house with its roof is of more value to its owner than the fine furnishings within the walls. It is an unwise householder who puts in jeopardy his shelter to save his ease.

I endorse all that President Adams has said regarding public financing and the ultimate chaos which will come if we do not mend our ways.

This country of ours and its free institutions have cost so much in treasure and sacrifice and blood; it is so blessed with comforts and

culture, with knowledge and happines; its freedom has been so dear to us and means so much, not only to us, but to our children and our children's children to the last generation; it has been so much a power for good and righteousness in the world; the Lord has smiled so kindly upon it and upon the welfare of us, the people living in it, that we must not let it pass away.

Reduced to its lowest terms, the great struggle which now rocks the whole earth more and more takes on the character of a struggle of the individual versus the State. Does the individual exist for the benefit of the State, or does the State exist for the benefit of the individual? To this point of time, in this country and in the Christian world, the State has existed for the benefit of the individual. Man, the child of God, and man's welfare have been the concern of the State, so that man might have happiness here and reach the eternal life to which the Master pointed and led the way. Every man has stood the equal of every other man before the law, and this is the declared plan and will of God.

Today the powers of evil battle throughout the world, to set up the State as a God, to force every back to bow under its burden and to sweat for its support, to silence every tone of protest, and to drag from every throat a hymn of praise to its glory. Men are to be the slaves of the State, their doles and favors are to be granted at the pleasure of the self-chosen few who guide and control the new State—which is to become Deity. That is not God's way.

This gigantic world-wide struggle, more and more takes on the form of a war to the death. We shall do well and wisely so to face and so to enter it. And we must all take part. Indeed, we all are taking part in that struggle, whether we will or no. Upon its final issue, liberty lives or dies.

In the economic field, this earth-wide conflict has taken the form of seizing without compensation from the man who has and giving to the man who has not; of taking without price from the worker the fruits of his work and giving to the idler who does no work. It has from its very nature become an economic, uncompensated leveling downward, not upward, of the whole mass. This is the result in every country in which it has been tried. That this result may in one country be reached by confiscatory taxation, and in another by direct seizure, is a mere matter of method. The result is the same. In some countries outright seizure and confiscation are already openly and shamelessly practiced. All is done in the name of the State, as if it were Deity—as if the State, not God, gave all.

In the field of government, self-perpetuating governing groups are setting themselves up, either through a revolution, an overturning of the old system and the setting up of a new one, or by a perversion and prostituting of the old system into a new one. Here again the matter is merely one of method. Of what use is an election free in outward form if the government shall name the candidates?

In the new state of the world, laws and courts have lost their wonted places. Secret police, the curse of peoples, arrest, sentence and punish as their unhampered whim, prejudice or hate may desire. Public justice has fled the State.

Even into the field of family relationship, which, next to man's relationship to God, is the most precious and dearest of all relationships, this modern State is thrusting its polluting hand. In some lands this new State is robbing the parents of the custody of their children on the Sabbath, it is forbidding the parents to teach and admonish the children in the ways of righteous living, it is teaching the children that officers of State, not God, shall be looked to for a guide as to standards of life. The pending amendment to the Constitution of the United States is of such scope and character that it may be easily wrenched to the same ends—a fact which at least some of its proponents know and approve.

Into the field of religion, the holy of holies of the soul of man, this modern world State also enters, to dethrone God and exalt the State into God's place. This is the archest treason of them all. For man robbed of God becomes a brute. This sin must be felt, not told, for words cannot measure the height and breadth of this iniquity; nor can human mind encompass the punishment of those who shall commit this sin.

All over the world this new State comes into all these fields in the disguise of a protesting love and friendship for the people, whose property it means to confiscate, whose liberties it means to steal, and whose religion it means to destroy. Thus in all the history of the world has tyranny come to the people. Tyranny has always been a hypocrite, a thief, a seducer. It has always been a demon dethroning the true God, for it knows that unless it can touch the souls of men it must itself die.

In their wisdom, divinely bestowed, the fathers set up in America a Government of limited and delegated powers. The Government has only such powers as the people have expressly and explicitly given to it. So jealous have all branches of government been of this principle that for the century and a half of our existence it has been the settled, and heretofore undisturbed, constitutional principle that even the great clauses of the Preamble to the Constitution, which declare the very objects and purposes of our central government, have been denied the power to confer any jurisdiction upon the Government. Nor has the other constitutional clause which states that Congress shall have power "to make all laws which shall be necessary and proper for carrying into execution the foregoing powers, and all other powers vested by this Constitution in the Government of the United States, or in any department or officer thereof," been interpreted as enlarging Federal jurisdiction. The powers of the Federal Government are to be found in the explicit grants made in the instrument, and in them only.

Furthermore, the Ninth Amendment to the Constitution declares:

"The enumeration in the Constitution of certain rights, shall not be construed to deny or disparage others retained by the people."

And the Tenth Amendment further declares:

"The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

Thus the people have told the Government the things it may do; the residuum of power rests with the people.

In setting up a government on this principle the founders deliberately, and with a wisely fixed motive, kept away from government the right and power to legislate regarding, or to control the citizenry in, many matters affecting the individual liberty of the citizen. Those commonly mentioned are freedom of speech, freedom of the press, and freedom of religion; but there are many others. These things are put wholly beyond the reach of law and governmental control. The Federal Executive and the Congress may not touch them, nor may the State governmental agencies touch them, except the people of the State specifically empower them so to do.

This principle is the very genius of the Anglo-Saxon system of law as developed in this country. The people specifically grant to their governments the powers and authorities which they wish their government to have. When any power is exercised that is not granted, it is usurpation. No despotism can ever be set up when these principles operate.

The underlying theory of the Roman civil law which is in force in non-Anglo-Saxon countries is quite otherwise. There the rights and authorities of the people are granted to them by the sovereign—a Justinian or a Napoleon. The people have such rights only as they are granted. The residuum of power is in the sovereign, who may enact any measures, either against or for the people, which suits his sovereign will. Obviously, under such a system despotism may thrive.

To speak in broad generalities:

Under the Anglo-Saxon system—our constitutional system—the people look into the law to see what they may not do, for they may do everything which their government, under the specific grant of powers, has not forbidden them to do. Under the civil law the people look into the law to see what they may do, for they may do nothing which their sovereign has not expressly or impliedly permitted them to do. This civil law theory is so convenient to executives, impatient of the restraint of law, that it is not a matter of wonder it should be finding favor among State and national authorities. But it will lead to great usurpations of power under the Anglo-Saxon system of government.

Knowing by experience the tendency of the central power to absorb all other powers, national and local, the fathers set up a dual system of government, and left to the local unit all governing powers not necessary for the carrying on of the central government, with prime reference to its international relationships. There was to be the largest possible measure of local self-government. The fathers did not assume that any appreciable number of the electorate would ever slip so far away from the actualities as to believe that a government thousands of miles away would know better what the locality needed than the locality itself. This was the very issue of the Revolution. The fathers did not assume that any part of the electorate would ever believe that John Doe, a mediocre or worse man in his own community would, when transferred to a Government job in Washington, be thereby endowed with supernatural wisdom, enabling him to tell the home folks how best to do things he himself had never been able to do at all when he lived amongst them. This was a fallacy they thought no foolishness could reach. The fathers did not assume that any great part of the electorate would ever fail to understand that while their franchise gave power, it could not and did not bestow wisdom.

The experience of the ages tells only one story: that Liberty lives only where there is local self-government; and that she lives best and fullest where there is the largest measure of such governments.

Our constitutional fathers, experienced in the deceit and practices of tyranny, knew the ways of its approach. Knowing that tyranny must have gold to further its purposes, they placed the power to raise money in the hands of the direct representatives of the people, and provided that "all bills for raising revenues shall originate in the House of Representatives." Lodging this power in the House, they assumed that the people would never send as their representatives mere puppets of the executive branch of the government—puppets who would levy taxes and lay burdens as the Executive might wish; nor did they assume that some of the electorate would ever fall so low in civic integrity that such puppetry could be successfully proclaimed as a virtue entitling its possessor to the franchise of the people.

Aware that a combination of legislative, executive and judicial power in one person or body was destructive of all freedom and justice, they established a government in which these three branches were distinct and wholly independent the one from the other. The fathers provided this so that no one scheming and ambitious branch of the government could absorb the others, either with or against their will. They did not contemplate that by subterfuge, cajolery and gratuities any large part of the electorate could be brought to believe that a combination of all of these branches into one, or a domination of one over all, would be a blessing.

Conscious that long terms of office serve to entrench and solidify individuals and parties into a power that tends towards tyranny; realizing that the changing views and interests of the people required a frequent opportunity for expression through their chosen representatives, the fathers provided short terms of office for all national legislative and executive officers. The Father of His Country gave body and substance to this principle by refusing to prolong indefinitely his own tenure in public office.

The fathers did not assume that any considerable part of the electorate could ever sink to the level where their continued support could be actually purchased by the flagrant use of gratuities made available by the people's own representatives contrary to the spirit and genius of our free institutions.

Knowing that the liberties of the people, the safety of their property, and the protection of their lives, depended upon the making of laws which conformed to the Constitution and upon the due and just administration of such laws, the fathers set up a judiciary that was not only independent of the other branches of government, and free from political domination, but beyond their reach by any direct and legal interference. They did not assume that the time would ever come when either of the other branches of government would attempt by subterfuge and indirection to do what they could not do directly and so attempt to dictate the course and character of justice in the interest of any political theory or tenet. The fathers assumed an integrity and honesty in the public servants of the Nation which would guarantee the people against indirect subversions of their institutions.

The fathers were schooled in attempts to control what they wrote and spoke in criticism of government; they know how tyranny and oppression smart, and even slough away under publicity; they understood how "little" men in office resent disapproving comment on their acts and how they try to punish those who make the comment. So they provided that Congress should make no law "abridging the freedom of speech or of the press." But the fathers never caught the picture of a regulatory power over means of communication and publicity that could forestall all but favorable expressions regarding government. The fathers felt that when they protected freedom of speech and of the press against governmental interference they had effectively guaranteed the citizens' freedom to talk and write as they felt and thought about their own Government.

The fathers based our whole system upon the equality of all men before the law. They had evolved from their experience the principle expressed in the dictum of the Declaration:

"We hold these truths to be self-evident: that all men are created equal; that they are endowed by their Creator with certain inalienable rights; that among these are life, liberty and the pursuit of happiness."

The Constitution itself contains no word (save as it refers to slaves) that provides or suggests or even intimates that all laws are not to be uniformly and impartially administered.

The courts have from the beginning declared class legislation to be unconstitutional. The great immunities of the Bill of Rights ran in favor of every citizen; none were denied the blessings of liberty. The Fourteenth Amendment specifically provided that no State shall "deny to any person within its jurisdiction the equal protection of the laws." and no patriot will say that the same inhibition does not in spirit run in

favor of the citizen against the United States. The fathers were careful to provide that the Chief Executive should solemnly covenant that he would "faithfully execute the office of President of the United States and would to the best of his ability preserve, protect, and defend the Constitution of the United States." The Constitution expressly prescribes that the Chief Executive "shall take care that the laws be faithfully executed." This fundamental principle of equal justice and equity is basic to any system of free government among men.

Conscious of the inherent power for oppression and abuse of the taxing power—the evils of the taxing power lay at the base of the causes of the Revolution—aware of the principle afterwards announced by the great Chief Justice that "the power to tax is the power to destroy," the fathers carefully guarded the taxing power of the Federal Government and expressly denied the right of the Federal Government to levy direct taxes against the individual. They saw clearly that the power to tax the individual gave the power to control them, so they left this power in the States to be handled under local self-government, where the restraints of neighborhood and acquaintanceship might be operative. Later statesmen, through the Fourteenth Amendment, protected the citizens against their own State governments in the matter of "equal protection of the laws."

Then came the time, a quarter of a century ago, when the urgency for more revenue for government expenditure, disguised by the plea of better equalizing the tax burden, led to the amendment authorizing the income tax. This tax was at first light, but it grew by leaps and bounds. Always and ever, the more you feed a government, any government, the hungrier it gets, and the more it eats. Citizens who had worked through many frugal years of hardship and sacrifice to a competence, saw in their ripening years the government come in any take a generous part of the fruits of their life-long labor, to carry on highfalutin' plans and schemes, and to build projects in which the Government had no business to engage. This led men to try to evade this Government wastage of the money they had so laboriously earned, and the Government itself encouraged the effort by admitting that men were justified in finding ways of taking themselves outside the purview of the law. This is a way and spirit destructive of all integrity in the citizenry.

Under an executive ordinance power recognized by the courts, but outside, I feel sure, of the purview of the fathers, rules and regulations have been laid down, covering the payment of income taxes, that have varied as the need for more revenue has mounted. Sometimes these regulations have been made retroactive and citizens who paid an honest tax at the time it was due have been forced to pay further tax years afterward, under the impact of a threat of vicious penalties if they failed. Inheritance taxes have also come into the field.

All this has created a situation in our tax life that would enable any Administration so minded to lay a heavy and unequal hand on the citizenry of the country. An Administration so minded could investigate or refrain from investigating; it could make further levy or let the old levy stand, as suited its will and convenience; and in making a further levy with penalties, it could bring ruin. An Administration so minded could thus bring to the citizenry a reign of terror; it could silence criticism; it could crush all opposition. So comes tyranny in its blackest form.

Nor would the end be yet. For the governmental maw, not satiated with eating the mere incomes of the citizenry, would demand more of their goods, and the next move would be a capital levy in some form. Make no mistake about this. Such has been the consistent way of all governments embarking on this course. The move to take the capital the citizens have saved will be disguised as a means of alleviating the needs of the poor, of equalizing the burdens of government, of sharing the wealth. When that comes, the conquest of the citizens will be complete; tryanny will be enthroned and rule till liberty is again brought back across many bloody fields of battle. Thus will history again repeat itself.

Our fathers knew all these approaches of tyranny. They could hear its muffled tread afar off. They left us signs and warnings to quicken our ears; they set up for us bulwarks across his path. So well did they do their work that for scores of years tyranny did not leave its lair. Human freedom and happiness and prosperity filled the land and joy abode in the hearts of the people. We forgot that tyranny lived. Then it left its den in the night and began stalking our liberties even as a wild beast creeps silently, through the darkness, upon its victim.

The Constitution is our sole shield against this crouching beast; it is our sole weapon of defense against tyranny's freedom-destroying spring.

You men of money, you captains of industry, you employers of every kind, you keepers of the people's savings, you leaders in whatever walk of life, do not cling in the rear like slackers, justifying your act and place by the convenient and comforting assertion that by so doing you are best serving those who look to you for protection. This is false; to some it will look all too much like cowardice. No war was ever won by cravens who skulked in the rear.

A holy duty calls you into the very front ranks, in the war on waste, extravagance, misuse of the public funds, and demagoguery, whenever and wherever any of these are found; it calls upon you to advance in the war against encroachments upon our guarantees as to life, liberty, and property, the perversion of our free institutions, whenever any of these shall appear in our public life; it bids you to full-breast whatever blows may come in such a war; it demands that you make good your constant and just boast that the people's welfare is your concern and obligation; it invokes against you the judgment of two millenniums—"Ye shall know them by their fruits," it brings to you anew the truth of the fathers—"United we stand, divided we fall," it sounds in your ears the blessings which the millions who trust you will shower on your heads; it opens to you a vision of the importal glory that may be yours if you stand forth patriots, ready to sacrifice your all that the freedom bequeathed to us by the fathers shall remain to bless us, to bless our children, and to bless the world, during the unnumbered centuries to come.

I love the Constitution of the United States, and the free institutions it creates; I love the freedom and liberties it bestows upon me. I cherish the guarantees that it has given to me and that my children shall possess after me, if I shall not throw these guarantees away. From the time I stood at my mother's knee, I have been tought to reverence the Constitution as God-given. I firmly believe it is. It is the doctrine of my church that the Lord himself has declored: "I established the Constitution of this land by the hands of wise men whom I raised up unto this very purpose." It is also the doctrine of my church that the Lord further declared that officers of government should exercise their authority "according to the laws and Constitution of the people, which I have suffered to be established and (which) should be maintained for the rights and protection of all flesh, according to just and holy principles." Thus the Constitution of the United States is to me and to my people as much a part of our religion as is the Decalogue given admist the thunders of Mount Sinai or the Beatitudes spoken by the Master on the peaceful slope of the Palestinian hillside.

It is not my belief nor is it the doctrine of my church that the Constitution is a fully grown document. On the contrary, we believe it must grow and develop to meet the changing needs of an advancing world. We know that greed and avarice and lust for power and dominion over men are always with us, and will be until the millennium shall come. We know that these curses of men never sleep nor die; that they alter their ways of vice to evade the control of law and order. We know that sometimes they reach such size and influence that their handling may require changes not only in legislation but, on rare occasion, in the Constitution itself. But all such changes must be made to protect and preserve our liberties, not to take them from us. Greater freedom, not slavery, must follow every constitutional change.

So we did hold that in all that relates to its great fundamentals—in the division of powers and their full independence one from the other, in the equal administration of the laws, in the even-handed dispensing of justice, in the absence of all class and castes, in the freedom of the press and of speech and of religion—we believe that in all such matters as these our Constitution must not be changed. For more than a hundred years it has been our expressed and recorded belief that:

". . . Governments were instituted of God for the benefit of man; that He holds men accountable for their acts in relation to them, both in making laws and administering them, for the good and safety of society."

We have declared that:

"We believe that no government can exist in peace, except such laws are framed and held inviolate as will secure to each individual the free exercise of conscience, the right and control of property, and the protection of life."

As I have from infancy been taught these principles, so I have been taught that this is "a land choice above all other lands"; that God has declared it shall be in his especial care so that out of it these great principles of constitutional government, with its free institutions and liberties, shall flow over the earth to the blessing of the peoples of the nations, God's children all, and that nothing but the iniquity of this Nation itself shall rob it of this divine destiny.

And so the same fervor and devotion that I give to the other of God's declared purposes, I give to this exalted mission and destiny of my country.

Gentlemen, do you not catch a vision of this glory of America, not the glory of a conquest bought with our blood, of a conquest over a torn, maimed and hating foe, of a conquest that however it may seem, yet nevertheless always leaves the world poorer and more wretched, with more of woe and misery and sin and despair and hate and damnation than before it came—not these conquests.

But the conquest of peace and joy, the conquest of bringing more to eat and more to wear, of bringing more comfort, more education, more culture, the conquest of liberty over tyranny that all men may know and have the free institutions which are ours, the conquest of caste and legalized privilege and of all social inequalities, the conquest of want and misery, of hunger, and nakedness, a conquest of war itself, so that peace and "righteousness shall cover the earth as the waters cover the mighty deep," a conquest that shall bring a true millennium. And this is not an idle dream of the conquest of righteousness, for it lies within our reach if we shall not forfeit it by our own iniquity.

God grant we shall not sell this glory, our national birthright, for a mess of pottage! God grant we shall not by our own sin rob ourselves of this divine destiny and the world of its divine heritage.

Science, Employment and Profits

By Karl T. Compton, President Massachusetts Institute of Technology, Cambridge, Mass.

Your President, Mr. Adams, when he invited me to address you on this occasion, gave me a directive in the following words:

"As you know, the banking fraternity is greatly interested in some of the fundamental economic problems of this country at the present time. In recent years there has been much discussion to the effect that science, which has developed our technological civilization, has really caused our unemployment. We should like to have you give us the benefit of your thinking on this very important and fundamental problem in our present social and economic order."

This is a subject of obvious interest, not only to members of the banking fraternity, but also to scientists and engineers, and I therefore welcomed the opportunity to try to express some of the fundamental issues, as I see them. However, I did not like the title of technological unemployment. For the motive power which impels scientists to make their discoveries and engineers to apply these discoveries is faith in the positive values of knowledge and in the predominant usefulness of its applications. We believe that the primary effects of science are beneficial and that its unfortunate effects, like technological unemployment, even though serious, are secondary and of lesser importance.

Therefore, I preferred to state my subject with a positive implication in the form, "Science, Employment and Profits," even though I shall obey my marching orders and discuss technological unemployment.

Technology and its influence on employment and standards of living are, literally speaking, as old as the hills. For the relics of primitive man, disclosed by the excavations of archaeologists, prove that he has used tools from the very dawn of history. In fact, the ancient civilizations are now described by these tools, as the Stone Age, or the Bronze Age. To a very large extent, man's standard of living has always been limited by the tools at his disposal.

As long as man has built roads and shelter he has practiced civil engineering. When the ancient Assyrians invented wheelcarts to carry their loads and when the Egyptians used inclined planes to raise the massive stones of their monuments, they were mechanical engineers. And the old alchemists developed some rudiments of chemistry and metallurgy.

Technological unemployment, also, has existed ever since men have used mechanical devices to aid them to do their work more advantageously. When the Egyptian farmer installed a water-driven or ox-driven pump to irrigate his fields with waters from the Nile, he became, thereby, technologically unemployed. The time which he previously spent in carrying water by hand he could now spend in loafing or doing some other job. At the same time he could irrigate a much larger field and harvest a much larger crop than ever before.

With the development, first of water power and then of steam power, and with the accelerated rate of discovery in science and its useful applications,

these primary desirable effects of technology on employment and living standards have been multiplied enormously, and have, at the same time, disclosed some secondary complications which are definitely undesirable unless they can be avoided or compensated.

The speed of these recent developments is suggested by the fact that the 150th anniversary of James Watt's discovery of the steam engine was celebrated only four years ago, and men are still living who worked with Edison and Thomson on the first developments of electric power. Yet there is encouragement in the thought that technological unemployment is not new with us as a serious problem in our own generation; it existed 50 years ago, as described by the then U. S. Commissioner of Labor in these words:

"The rapid development and adaptation of machinery have brought what is commonly called 'overproduction.' The nations of the world have overstocked themselves with machinery and manufacturing plants far in excess of the wants of production. The day of large profits is probably past."

Yet since that time such new industries as the public utility, telephone, automobile, motion picture, aviation, chemical and a host of others have sprung from technology and created new profits, new employment and new standards of living far beyond anything dreamed of 50 years ago. Herein is both encouragement and a lesson to us today.

Let us approach the matter also from another aspect. How has wealth been secured. The people of the world have always had a deep desire for what our President has so aptly phrased "the more abundant life." Within this phrase are included the whole gamut of objectives of governments, social agencies, labor organizations, private philanthropy and education. It is the mainspring of the private initiative of every citizen and every group. It is a fundamental human aspiration. How may it be achieved?

From the days of the cave man, all through history up to the modern era of science, there were only two primitive recipes for securing the materials desired for the more abundant life. One was to work hard and long in order to produce more, and the other was to take the good things of life from some one else, by theft, conquest, taxation or exploitation.

To get the good things of life by taking them from others is a primitive instinct, undoubtedly developed by the age-old struggle for existence. We have all seen monkeys, or sea gulls, or wolves, or pigs, snatching food from each other, fighting to possess it, or shouldering each other away from the trough. When human beings carry this philosophy too far beyond the accepted standards, as did Jesse James and John Dillinger, we call them "public enemies." But this same philosophy of taking what we want from others by violence or trickery, or by legalized strategy and force, has run all through history.

Remember when Moses led the children of Israel out of Egypt into the Promised Land. Joshua, sent ahead to spy out the land, brought back a glowing description of a "land flowing with milk and honey." This was truly the opportunity for a more abundant life for the Israelites, and they proceeded to smite hip and thigh the Hittites, Moabites and Philistines, and to take possession of their land, herds and cities. The ethics of the case did not disturb them, for were they not the "chosen people"?

Later, the Romans conquered the then known world, in order to extract tribute and slaves from the conquered nations and to exploit the mines and farms of the world. Beginning with 1492, all Europe sought wealth through exploitation of the newly-discovered lands of America, which they took from the Indians by conquest or treaty. A century or two ago the nations of the world were robbing Africa of its ivory and its gold, and capturing its people for slaves. We can all cite examples of this same philosophy in international affairs in the present year of 1938, even to the use of the old excuse of the Israelites in that each nation tends to consider itself as a "chosen people," with special privileges over other peoples.

But it is not alone nations against nations which have followed this policy of seeking to profit at the expense of others. Let me suggest a few examples of this same primitive philosophy operating within our own nation in recent times.

A speculator attempts to corner the wheat market so that he may reap a profit at the expense of the purchasing public. A trust, in the sense of a combination in restraint of trade, attempts to use its control of the situation to force its customers to pay exorbitant prices in order that it may make an abnormally large profit at the expense of the public. There is much of the same basic element in the doctrine, which has had some governmental sanction, that the farmers of the country should combine together to restrict production in order that prices of agricultural products may rise, thus forcing the public to pay special benefits to the farmer. Industries seek an analogous special advantage through tariff protection. A political party, when it wins an election, proceeds to displace postmasters and commissioners with its own followers, to hand out patronage, as it is called, at the expense of the losing party. There has been a tendency for the owner of a business to pay his employees as little as possible, taking all the work he can get out of them and paying as little as possible in order that his profits may be large. For equally natural reasons, ever since the days of the Romans and perhaps earlier, there have been trade unions of workers organized to force the employer to pay higher wages for less work.

But in recent times modern science has developed to give mankind, for the first time in the history of the human race, a way of securing a more abundant life which does not simply consist in taking it away from some one else. Science really creates wealth and opportunity where they did not exist before. Whereas the old order was based on competition, the new order of science makes possible, for the first time, a cooperative creative effort in which every one is the gainer, and no one the loser.

For this reason I believe that the advent of modern science is the most important social event in all history. It marks the point at which men have come to understand themselves and the world they live in well enough to begin systematically to control the hidden forces of nature to their advantage. Already science has done much to raise our standards of living, but these hidden forces are so great that we are assuredly only at the beginning of things possible.

Now, through science and the machine, the people of the United States are served with the equivalent of 100 slaves for each man, woman and child. In other words, there is machine power expended at the rate of 13.38 horsepower hours per day per capita. This figure changes to 6.65 in Great Britain, 6.04 in Germany, 4.35 in France, 1.75 in Japan, 0.93 in Russia, 0.63 in Brazil and 0.45 in China. Averaged over the entire earth, the machine power is 2.475 horsepower hours per day per capita (or the equivalent of about 18 slaves per person). (Data from Read, "Am. Economic Rev.," March 1933, p. 58; Hirshfeld, "Toward Civilization," 1929).

To illustrate how the machine has benefited the laboring man, consider the foregoing figures in connection with the following. Suppose an average steel worker wishes to buy 1 lb. each of beef, bacon, bread, butter, potatoes and sugar, plus 1 quart of milk and 1 dozen eggs. In the United States he would have to work 1½ hours to earn enough money to buy these things. In France he would have to work 3½ hours, in England 3¾ hours, in Germany 5¾ hours, in Russia 23½ hours.

Some significant facts regarding the effect of the machine on the wages and employment of the worker are these: Counting 1840 as about the year in which power machinery came to be important in the United States, we find a steady increase since that date in ratio of average wages to average prices of commodities, so that it is now about seven times what it was in 1840. In other words, the average wage earner in America can today buy seven times as much with his wages as he could in 1840; or more than twice as much today as he could in 1910. Also, despite increasing population and increasing use of labor saving machinery, the percentage of our population gainfully employed increased 25% between 1870 and 1930.

A pamphlet distributed a few months ago by the First National Bank of Boston listed some achievements made by the combination of applied science and individual initiative under the title: "The American System and the Abundant Life." It said, in part:

"More material progress has been made during the past 150 years under the American system of business enterprise than during all the preceding centuries in the world's history. This record of achievement is a challenge to those who would radically change the system. Even in such a trying period as we are passing through, we cannot afford to forget our history or lose our perspective. It is well to recall that for thousands of years mankind was struggling with nature to eke out a bare existence, and the economic system of today is the survival of experiments in virtually all forms of endeavor. The present system is being constantly corrected and modified as defects appear.

"Not only has our per capita material wealth greatly increased, but the schedules of labor have been reduced from 60 hours a week in 1900 to an average of around 40 hours at present. Machines have lifted the burden from the backs of workers so that considerably less human energy is now required for a greatly increased volume of output.

"The American system has not only vastly improved working conditions in the factory, but it has also reduced much of the drudgery in the home. Two-thirds of the homes are now wired for electricity, and of that number 97% have electric irons, 49% have electric washers, 42% have electric clocks and 34% have electric refrigerators. As a result of the aid of mechanical servants and the large number of former domestic tasks now performed outside the home, the hours devoted to housekeeping have been reduced by over 30% within the past generation.

"Unparalleled facilities for education are provided in this country. The percentage of persons between the ages of 5 to 17 enrolled in our public schools has increased from 57% in 1870 to 73.5% in 1910 and to 82% in 1932. The average number of days attended by each pupil has nearly doubled in the last six decades. More money is spent on training our young people than in all the other countries of the world combined. Expenditures on education per capita increased from $2.84 in 1900 to $17.42 in 1932, while the aggregate salaries paid the teachers have more than quadrupled during this period. Not only has there been a marked increase in the attendance at public schools, but more than 1,000,000 students are now enrolled in our colleges, or six times as many as in 1900. Our system of education has opened wide the door of opportunity to all of our people."

From still another point of view, we again see applied science—technology—as an increasingly important source of wealth. Our nation, within our generation, has come to the end of the unlimited opportunity for exploiting the free and undeveloped natural resources with which our land has been blessed—resources of coal, oil and gas, of mineral deposits and rich agricultural land, free for staking a claim and working it to provide materials for a rapidly-expanding civilization. But no longer is the road to easy wealth epitomized in Horace Greeley's words: "Go west, young man, go west." Nor can England any longer build her prosperity by geographical exploration and colonization of virgin lands with such profits as we find it now hard to realize—profits of 100% on every voyage of its East India merchantmen.

And so it is, all over the world, that the point has been reached where further increase in our wealth, population and cultural opportunity will not depend much on discovering new resources by geographical exploration, but mostly on wiser use and new use of the resources that we now have, through scientific exploration. The geographical pioneer is now supplanted by the scientific pioneer, whose thrill of discovery or urge for reward are no less keen, and whose fields for exploration appear to be unlimited. Without the scientific pioneer our civilization would stand still and our spirit stagnate; with him, mankind will continue to work toward a higher destiny.

Not to speak too much in generalities, let me give a few specific examples of what technological progress has meant to business recently. In the worst period of the depression, President Swope of the General Electric Co. reported to his stockholders that 60% of the year's business had been in products which were new within the preceding decade. Dr. Roger Adams, in his recent presidential address before the American Chemical Society, stated that 95% of the chemical industry derived from discoveries which were made in university laboratories. In a national conference on "Technology and Employment," held in Chicago a little over two years ago, Mr. John W. O'Leary stated that one-fourth of the employees in American industry today owe their jobs to 18 new industries which have developed since 1880. He also showed that the most rapid growth of employment is in those industries which have been advancing most rapidly along technological lines. Similarly, a survey by the National Research Council has shown unmistakably that the financial soundness and prosperity of various types of industries is in general proportional to their activity in research. It was the development of railroads that led the country out of the depression of 1870; the electrical public utility industry brought prosperity after the depression of 1896; and the automobile industry has been the largest factor in new profits and employment after the depression of 1907.

Unusually striking are the status and trends in an industry which is typical of those which have built on the foundation of technological progress—the chemical industry. There is more than a suggestion of truth in the quip that any one without a doctor's degree in the chemical industry is likely to be the janitor. Here we find a faith in the ultimate financial values of science like that demonstrated by a company which recently put on the market a new chemical product on whose research development it had spent more than a million dollars. Let me quote two paragraphs from this year's October issue of the magazine "Industry," based on records from the U. S. Bureau of Labor Statistics and the National Industrial Conference Board:

"Employment today in the chemical industry is 27% higher than in 1929, although manufacturing generally is still about 5% lower than in the 1929 peak.

"The chemical industry's average hourly wage, also average weekly wage, is 15% higher than for all manufacturing. The chemical factory worker earns on the average $31 a week, compared with an average of $26 a week for all manufacturing industry."

Thus far I have spoken of the achievements of science and the beneficial effects of scientific discovery upon society. I have not opened the closet door to disclose the skeletons. Frankly, skeletons seem to me to be less important than the human race, for I should not advocate abolishing the human race just because it produces skeletons, among other things. Science has been criticized because of certain evils which have attended its applications in human affairs. The record of benefits, however, so far exceeds the record of damage that I would not focus primary attention on the latter. Nevertheless, we must face and try to solve the difficult problems created by science if we wish fully to enjoy its benefits. So let me discuss the particular problem of unemployment.

Technological unemployment is a spectre that has haunted us particularly in the past few years. Let me introduce it in the words of Mr. John L. Lewis himself, as they appeared in the "Tech Engineering News" of October, 1937:

"Labor, of course, is not unaware of the argument that the displacement of labor through technical improvements in industry is only a temporary phenomenon. The argument runs like this. Improved machinery means lower prices, and the savings thus given the consumer are available for the purchase of other commodities, which, in turn, demand more labor to produce.

"The fallacies in this argument are twofold. First, prices do not automatically reduce themselves with lowered production costs. Prices are determined by many factors, and every one, except the confirmed classical economist, knows that, even when prices do reflect reduced costs, there may be a long 'time lag' before this occurs. And second, labor is not a fluid, flowing from where it is not wanted to where it may be wanted, without loss or friction. Labor, on the contrary, is just a conglomerate of human beings, with the ordinary human craving for food, clothing, shelter and family life. Thus, if a machine displaces ten skilled lumber workers in Seattle, the fact that, simultaneously, there are openings for ten skilled tailors in New York City, is no help to the ten jobless lumber workers in Seattle. In the first place, they probably would know nothing of the New York jobs; secondly, they probably couldn't afford to travel that far; and thirdly, even if these two serious difficulties could be overcome, the unemployed lumbermen couldn't qualify for the jobs offered. This, of course, is an extreme case, but broadly speaking, it illustrates what has been happening to American labor."

Mr. Lewis's own recommendations for amelioration of this difficulty are:

First, better assurance that workers will receive a fair share of the benefits of technological progress.
Second, liberalization of social security schemes.
Third, strengthening of labor unions for both defense against industry and assistance to it as situations dictate.
Fourth, direction of technology with view to its social consequences.

The problem is very difficult, for there is great danger that steps will be taken which will sacrifice future welfare for the sake of immediate benefit. But the problem assuredly requires the most intelligent and active handling that can be given it.

General unemployment is a far more serious problem than technological unemployment. How can it be met? Some 12,000,000 people who should have work are today reported as unemployed, practically the same number as in the early stages of the depression, and despite the enormous expenditures and theories for curing the situation. As a remedy the dole is only a desperate substitute for no remedy at all. Sharing the work is of some value up to a certain point, but becomes a boomerang if carried too far, i. e., beyond the point of efficient operation.

Obviously, general unemployment is inevitable if population increases faster, relatively, than new jobs multiply. We can't do much about population control under present conditions, but what can we do about new jobs? Here science has a definite answer: Give science a better opportunity to create new products which people will be willing to pay and to work for. Or let applied science so cheapen the manufacture of products which many people would like to possess but which are now too expensive for large-scale purchase.

This is a long-term program, for scientific discoveries cannot be made to order for delivery on a schedule, and when made they cannot be developed overnight into flourishing industries. But all past experience proves that this plan is sure and successful. We can even prove that serious general unemployment would have struck us many years earlier had scientific research been less encouraged than it was. Herbert Hoover, more than ten years ago, pointed out the serious consequences that were bound to follow if some means were not found to support more active research in pure science in order to maintain the continuing supply of new ideas on which new industries and new employment could be built. To a certain extent he foresaw what has actually happened: that ten years later we are looking desperately for new industries, trying suddenly to prime industrial pumps, trying to create a great housing industry before the technical foundations have been soundly laid. When a Government official asked me, not long ago, why sicence did not have more to offer now, I replied: "The groundwork for what you want should have begun ten years ago." Similarly now we should be laying the foundations for ten years hence. Unfortunately, few prople of power to put such a program into effect have the vision and understanding to do so.

At this point I am minded to quote as follows from my remarks on Research Day in New England last May:

"As over against this provenly successful method of achieving our desires, what have we been doing in the last few years? Primarily, three things: priming the pump, redealing the cards, and multiplying restrictive regulations!

"If a pump doesn't draw water it may be because the pump is faulty or because it doesn't reach down to the water level. Of course, the sensible thing to do is to prime the pump, if you need water in a hurry. But I submit that the man who simply continues to resort to this expedient instead of repairing his pump, or getting a new one, or driving his well deeper, is the kind of a man who is headed for continual trouble and poverty. Research is the process fo building a better pump and driving the well down into new supplies of water. I sincerely believe that, if a quarter of the money that has been poured down the financial pump for priming purposes had been wisely devoted to research and development of industrial products, we would not now be faced with another pouring of money down the same hole.

"Then take that reshuffling of the cards known as 'the New Deal.' I speak of this, not in a political way, but simply as an analysis of what I consider a basic failure of its method, through neglect of research, to achieve its splendid objectives. To a large extent the New Deal has been played with the same old greasy cards. It has consisted essentially of taking the aces and jokers from one group of players and handing them to another group. Whether or not this new distribution is fair or is of general advantage is beyond the scope of my subject. But the important point I would make is that, through research, a new deck can be created with a lot more aces. And the aces of this new research game have the peculiar quality of producing winnings without corresponding losings. Research creates wealth, does not merely reshuffle it.

"Take again the program of regulations. Regulations may be necessary for other good purposes, but regulations do not produce either employment or wealth or high average standard of living. They have exactly the opposite effect: they decrease the possibilities of progress and they introduce friction which, as every engineer knows, is synonymous with decrease in efficiency."

But, to come back to the subject of employment, let us first look at some over-all figures. According to a study by Jerome, published in 1934 by the National Bureau of Economic Research, the number of horsepower per wage earner used in manufacturing operations in the United States has increased steadily from an average of 2.11 in 1899 to 4.86 in 1929, i. e., it has more than doubled in 30 years. Broken down into some general categories, we find that the horsepower per wage earner in the chemical industries increased from 2.34 to 8.80; in the iron and steel industries from 2.94 to 7.58; in the stone, clay and ceramic industries from 2.20 to 8.79; in the paper and printing industries from 3.06 to 6.45; in the rubber industries from 1.95 to 5.52; in the food industries from 4.03 to 4.95; in the non-ferrous industries from 1.33 to 4.76; in the lumber industry from 3.15 to 4.39; in the manufacture of vehicles for land transportation from 0.79 to 3.30; in the textile industry from 1.36 to 2.43; in the leather industry from 0.64 to 1.37, and in the tobacco industry from 0.17 to 0.56.

Running parallel with this increase in use of mechanical power, we can study the trends of employment opportunities in the nation's manufacturing industries. These trends since 1879 have been very clearly analyzed by Mills in a bulletin of the National Bureau of Economic Research published two months ago. While the graphs and tables tell the story more easily than words, some of the conclusions can be summarized as follows:

In the 50 years from 1879 to 1929 the total population of the United States increased by a factor of 2.45. In the same period the number of wage earners in manufacturing industries increased by a factor of 3.66. In every intervening decade the number of wage earners increased more rapidly than the population except in the last decade, 1919 to 1929, when the number actually decreased slightly though the population increased some 12%. But even in this last decade the *total* number of wage earners plus salaried employees increased; thus this decade was characterized by some shift from wage earner to salaried employee status. In part this shift was due to the relatively greater need for well-trained personnel to handle the more advanced mechanical equipment. In proportion to the total population, in this decade 1919-1929, the number of wage earners decreased 1.8% while the number of salaried employees increased 1.4%.

Accompanying these changes was a very pronounced increase in the efficiency of produciton per wage earner, due principally to technological improvements. Thus, from 1899 to 1929, despite the large increase in number of wage earners, the total number of man hours of employment increased exactly in the same proportion as the population. In other words, although the fraction of the population employed as wage earners in manufacturing industry had increased notably, the average number of hours worked per week by each wage earner decreased by the same proportion.

Since 1929, however, there has been a striking change. The number of wage earners decreased from 1929 to 1935 by a little over 16%, while the total number of man hours of employment decreased 31%. Thus the average number of working hours per week for a wage earner decreased nearly 23%. This decrease reflects, in part, the pressure for sharing work to relieve distress, and in part the desperate efforts of manufacturers, by increasing their efficiency of production, to keep their business alive despite the partial collapse of sales and prices and the rapidly mounting load of taxation. To the social reformer who may condemn the manufacturers for introducing machine production at the expense of jobs for the worker, the manufacturer replies that, had he not done this, his business would have had to shut down completely, through bankruptcy.

The exact course of these trends during the depression is given thus: Output per man-hour has increased steadily to a figure in 1935 which was 27% above that in 1929; total production fell off by 30% from 1929 to 1933, and then picked up so that in 1935 it was 13% below 1929; man-hours of employment dropped 41% between 1929 and 1933 and then increased to a loss of only 31% by 1935.

When we turn to examine the effect of technological change in any given industry, the problem is exceedingly complicated. In fact, the report of a National Research Project supported by the WPA, entitled "Reemployment Opportunities and Recent Changes in Industrial Techniques," draws this conclusion:

"No satisfactory method of measuring the effect of technological changes on employment has yet been evolved. The complexity of the interrelationships between industries and between productivity and production makes impossible an adequate quantitative description of the full effects of technological developments."

I can well understand this conclusion. Probably the most complete study of the effects of technological improvements on an industry is that of the electric lamp industry by the U. S. Bureau of Labor Statistics, published in 1933. I know this industry well enough to appreciate the very thorough character of this study. It explains why, in the decade 1921 to 1931, when the production of lamps increased fourfold, the man-hours of employment in this production decreased nearly half. But what the study did not show was the indirect new employment resulting from the greater use and lower cost of electric illumination—new employment in distribution and sale of lamps, in operations of public utility companies supplying the power, in increased consumption of coal to produce this power, and above all in the enormous number of new activities which take place at night and are possible only because of cheap and effective illumination. And back of all this, is the basic fact that if there had been no technological progress there would have been no electric lamp industry at all.

To those of us who see so clearly the value of technological progress, who realize that without it no legislation or financial juggling or labor demands or wishful Christian thinking can produce high wages, short hours of labor, high material standards of living and the wherewithal to pay high taxes—it is reassuring to know that the real statesmen of the labor movement also realize this fact. Nineteen years ago the American Federation of Labor expressed this conviction in the following resolution:

"Whereas, the increased productivity of industry resulting from scientific research is a most potent factor in the ever-increasing struggle of the workers to raise their standards of living, and the importance of this factor must steadily increase since there is a limit beyond which the average standard of living of the whole population cannot progress by the usual methods of readjustment, which limit can only be raised by research and the results of research in industry:

"*Resolved*, by the American Federation of Labor in convention assembled, that a broad program of scientific and technical research is of major importance to the national welfare . . ."

And no statement of principle or program could be better than that in a Handbook for Committeemen of local lodges of the Steel Workers Organizing Committee, an affiliate of the C. I. O., recently published. It states:

"The Steel Workers' Organizing Committee, as a progressive union, stands for a policy of security and plenty for all. In order for all our people, wage earners, farmers and other useful people, to have more, we need to produce and distribute more, not less. The American people possess almost unlimited natural resources. We have trained management and millions of wage earners able and willing to work. Under such circumstances greater production, guided by efficient management, means lower cost per unit. Lower costs tend toward lower prices. This enables our prople to buy and use more goods. This, in turn, makes possible putting our unemployed back to work."

The booklet then goes on to say:

"How is it possible for the employer to pay labor more than still not have less himself? The answer is simpler than it looks. Almost any shop or mill is full of wasteful practices. There are many workers in any large-sized establishment who could offhand, as a result of their daily observations, give the management hints as to how it could save money and put out a better or a cheaper product. If this knowledge were collected and applied, the establishment would be better able to meet labor's demands.

"If a systematic study is made with the help of an expert—an expert working for labor as well as for management—a great many unsuspected ways of making economies can often be discovered."

In conclusion, gentlemen of the banking fraternity, I realize that I have given you a lot of figures and an expression of faith in the value of technological progress, but I have not solved any of your problems. Perhaps there is no final solution, but only the opportunity to do our best to secure the benefits of science and mitigate the accompanying difficulties as best we can. I think the whole situation can be summarized in a few brief paragraphs as follows:

If we look at industry as a whole, without inquiring into particular cases, we would conclude that technological unemployment is a myth because statistics show no decrease in the fraction of our population gainfully employed during the last few generations, in which machine production has become important. This is because technology has created so many new industries and has so greatly increased the market for many commodities

by lowering the cost of production to make a price within reach of large masses of purchasers.

In individual instances, however, technological unemployment may be a very serious social problem, as in a town whose mill has had to shut down, or in a craft which has been superseded by a new art. Here the fact that technological unemployment does not exist as measured by overall statistics is of small comfort to the families whose wage earners have lost their jobs.

I believe that two principles should guide us in these matters. Improved products and services should be made available to the public, and not forcibly estopped to protect any entrenched business or any group of workers who would be thrown out of jobs by the change, but with this proviso: the change should be made in a manner to afford generous protection to the workers affected by it. This is a definite job for management, in which efficiency should be tempered by humane considerations (an attitude which, I believe, makes for real efficiency in the long run).

Various methods are available for reducing the shock of technological changes, such as retraining workers, gradual changeover to fit the normal turnover of personnel (as followed by the telephone companies in introducing automatic switching), pensions and unemployment insurance, efficient employment agencies for labor exchange, cooperation between industries of a community to synchronize layoffs in one company with new employment in another, &c.

In any case, I believe that the fundamental criterion for wise procedure in this matter, as in every other, is that the predominant motive must not be quick profits or temporary advantage, but best ultimate service of the public. How this is best accomplished is the great job of every business management.

At the conclusion of his prepared address, Dr. Compton made the following remarks:

I have been very much encouraged by the way in which the newspapers have recently been shifting their editorial emphasis from discussion of technological advances as a source of trouble to an expression of faith in these advantages. A couple of days ago I read a very interesting editorial in the "Chicago Tribune," interesting to me because of the following incident: Two or three years ago I happened to be riding on a train in Chicago, talking with an engineer who said that the engineers and scientists in this country were greatly disturbed because the Chicago papers, unlike the New York papers, carried so few references to scientific and engineering developments.

We happened to have a "Chicago Tribune" with us and he said, "I will make you a small bet that there is nothing in this paper that has anything to do with science."

I took him up and we looked through the paper. I won, because there was a column and a half describing a perpetual motion machine.

With that background, I was very glad to see this editorial, a quotation from which will, I think, make a suitable conclusion for my address. After describing the values to society of scientific developments, invention and engineering work, the editorial goes on to say:

"This gigantic achievement has been so pervasive in its effects, has flowed so widely into the common lives of men that it has come to be taken as a matter of course. We press the button and the light comes on. A miracle has occurred but we take it as we take the air we breathe. Genius, the rare gift of superior minds and wills, has passed its gift to us and we take it for granted.

"But this world of new comforts and aids to living, of new experiences and powers, was not created impromptu nor by votes. It was created by the individual, not by masses or majorities. It was created by the effort and sacrifice of pioneers and leaders and organizers. It has cost self-sacrifice, self-control, self-direction, not only in the labor of the scientist and the inventor but in the genius and labor of the manufacturer, the businessman, and the financier. A vast mechanism for creation, production, distribution of the new goods and services of the modern world has been built, and only by its protection and maintenance can they be brought as they are being brought to the general body of the people.

"Yet there is reason for concern lest the structure which has raised the common condition of us all has been gravely weakened. There is reason to fear that for lack of clearer understanding of the price which must be paid for the accomplishments we enjoy, the price of reason, of intellectual labor, of self-discipline, and self-control, the price of law and social peace, the destructive influences now at work throughout human society will disintegrate and shake the structure down. Communism is its deadly enemy, but there are many other subversive ideas and forces at work to strangle initiative and enterprise, to breed envy and distrust of success, however honorable and profitable to all, to inflame violence and the primitive passion to destroy. The only defense from these passions is understanding of the conditions, moral and intellectual, which have made civilization with its gifts possible and which are essential to its preservation."

Maintaining Spiritual Values in American Life

By Rt. Rev. James E. Freeman, D.D., LL.D., D.C.L., Episcopal Bishop of Washington, D. C.

In days such as these, the presence of the Bishop of an ancient Church on the platform of a bankers' convention may not be regarded as unusual. If I may seek to find some justification for my presence here, possibly I may discover it in the 15 years I spent in commercial life, 12 of which were as an accountant in a great railroad corporation. I confess that one of the strongest justifications I have for my ministry is in those years when I lived close to the world of action and learned the motives as well as the difficulties that have to do with the practical concerns of life. It is not, as some think, a long step from journals and ledgers and financial statements to the pulpit desk and the deeper, spiritual concerns of men. Life's problems are the same, whether seen from the counting room or the pulpit. At least one lasting benefit has accrued to the years of my service in the Church; it is a finer and better understanding of and sympathy for life in all its varied and manifold phases. To be a diagnostician one must have had experience in the laboratory where exacting tests are made. May I express the hope that this kind of a background justifies me for sharing in the deliberations of a convention of bankers.

Serious times call for serious reflections. Recent years have put us to a test such as we have rarely if ever known. The war period lifted our vision and compelled us to think in terms of world interests. Some one has said that in 1917 and 1918 we stood upon the "Mount of Vision." H. G. Wells affirmed in a notable book, "Our sons have shown us God." We did not profit materially from the World War; as a matter of fact, we were conspicuous losers, not only in vast sums of money, but in the confidence and esteem of the Old World Powers. Had we observed the dictum of Polonius, "Neither a borrower nor a lender be," we would have a better standing in the family of nations today. However that may be, it is past history and it is a record that has brought us little of pride or satisfaction.

Quite apart from this, we have had experiences within our own country that have had more serious implications than those which the war itself entailed. We have been and are still moving through a period that has touched us more vitally than the great war itself. From one cause or another, we have suffered great material and financial losses, losses that as yet we have been unable to appraise. They have been losses so extensive, so general, that rich and poor alike have felt them and felt them keenly. General and not local adversity has been our lot as a people. It has been like some epidemic that has regarded neither palace nor humble home in its devastating ravages. All our skilled physicians have been unable to resist it, all our clever economists have provided no remedies to stay its course. When a temporary period of relief has come, we have felt a sense of easement and for the while have pursued our normal course, but the period of convalescence has been of short duration. As a matter of fact, the remedies we have applied here in America have proved less effective than those used in other countries. Clever and adroit as we think ourselves, we are not as resourceful under such conditions as some of our neighbors overseas.

As we frankly and candidly face up to conditions, it becomes evident that while we are singularly clever in forwarding prosperity under favoring conditions, we are not as clever in arresting adversity when head winds and stormy weather are prevalent. As diagnosticians of maladies, we are less skillful than we are at setting-up exercises. Certainly these past seven years have been designed to teach us lessons of vital importance.

A friend of mine, a man of discriminating judgment, suggested to me a theme that has pertinence. "Listening in a crisis," was his suggeston. His contention was that, as a people, we are given to too much talk and discussion; that what we need today is the cultivation of the habit of listening and reflection; listening to the many voices of our age, and listening with discriminating judgment and the capacity to evaluate what we hear. It might prove infinitely profitable to all of us if we could resolve to suspend legislative sessions, conferences of one kind and another, conventions and committee meetings, and give ourselves to serious thinking and wise planning and general house-cleaning, that a new and better world order might be ushered in.

Even the Church would be profited by a protracted period of silence and reflection. The Quakers have furnished us an excellent example in this respect. Between the confused noises and discussions in the daytime and the radio and other distractions of the night, we have lost much of our capacity to be reflective. I say this, because I solemnly believe that we are where we are and where we shall continue to be, from a lack of seriou thinking and wise planning. The currents of life have moved too swiftly for us. We have grown abnormally and so fast that our development has not been robust or healthy. We have grown flabby and our capacity to endure shocks and strains has not been marked. Our State and Federal legislative programs furnish sufficient evidence that we are still in the stage of mental ineptitude and incompetence. There is little long-range planning, with the result that we are in a perpetual state of instability and insecurity.

There would be less idle money in the banks and in private purses if we knew with reasonable certainty where we were going. It is little wonder that a foreign critic says of us that we are the "most improvident and wasteful people in the world." One hears frequently in Washington that big business and little criticizes legislative programs, but does nothing to furnish better and more constructive ones. There may be some truth in this, and if there is, it reflects seriously upon those who have the widest and most comprehensive knowledge of the best and most secure methods for the conduct of industry, commerce and finance.

I recently asked one of the great industrialists of the country if, as the result of the debacle through which his industry had passed, he and his colleagues had done anything thus far to prepare themselves against a repetition of the disaster, and he naively replied, they had been too busy repairing the damage to make any plans. I submit this is the part of folly. When an army has suffered a temporary defeat it calls its staff together and plans a new and more effective campaign. Such a campaign calls for brains and strategy. We are not of those who believe that the only brain trust is in Washington, or that all wisdom resides there. America has the best economic and financial brains in the world. A consistent query is, have these brains been made sufficiently sober and reflective that they are ready to say to industry, commerce and our financial institutions: "This is the way, walk ye in it, when ye turn to the right hand and when ye turn to the left."

You will not deny me the right to say this, as it is the warm expression of the abiding confidence I have in the integrity and mental acumen of the industrial, commercial and financial leaders of America. We have suffered a serious setback and along with it we face a world that is wrestling with experiments of one kind and another that are wholly foreign to our conception of ordered government. With such a situation confronting us, we dare not delay putting our house in order and putting it in order according to ways and practices that are consistent with American ideals. It is clearly evident that in our future planning we cannot be reactionary or pursue policies that are born of an excessive conservatism. But when I say that, I realize that sane conservatism is not conspicuous in our world today. Forward-looking as well as forward-thinking men are demanded by the exigencies of this pregnant hour.

As we attempt to appraise our age we are conscious of its unparalleled and amazing development along material lines. Wherever we look we see growth in such astounding proportions that no chronicler can do other than tell fragments of the story. If some Rip Van Winkle, asleep for the past 20 years, since the close of the World War, were to wake up for the first time today, he would be unable to recognize his new world. He would see the pace of life so quickened that the 20th Century Express would seem like a local train compared with the swift flight of the modern eagle, the aeroplane. He would find us talking no longer of such inconsequential things as millions, nor criticizing as we did a few years ago, a billion-dollar Congress. He would see us exercising a prodigal generosity in terms of WPA's and PWA's and other alphabetical formulas that reckon their expenditures in figures too great to be comprehended. Even for our reputations we have a new terminology and what was once considered distinction hardly gets other than the back page of our newspapers today. We are using new yardsticks with which to measure both riches and distinctions and our computations and standards call for a new kind of mathematics.

Youth in particular is getting an exaggerated conception of what constitutes values today; a conception that will hardly prove helpful when he is disillusioned by further recessions with their depleted values. There is no element in our corporate life more worthy of our intelligent sympathy than the youth, for ultimately upon him must fall the penalty for much of

our extravagance and stupid blundering. I sometimes wonder, as I address the young men of our great universities, if they are not already finding their vision of life and its deeper meaning obscured and confused by some of the false standards we have set up. Said one such, and a brilliant student, as he addressed me at a recent conference: "Bishop, how do you and those of your generation account for the terrible mess you have handed to my generation?" It was a searching question and it came from the very soul of a man who was looking at life with a vision blurred and darkened by the speculations and experiments of his bewildered elders. While I told him I was unwilling to accept in full the implied allegation of his query, I was sobered by its sincerity.

We have built and built much, and we have a justified pride in it, but is it pertinent to ask if along with out building and organizing genius we have laid foundations that will make secure what we have built? These recent years have disclosed a greater genius to destroy than to build. Even now as we sit here in security, the world is designing instruments of such capacity to destroy that their malevolence and violence staggers the imagination. The cheapest thing, by such standards of wholesale slaughter, is human life, and what human life can make.

Another and ominous phase of our life today, and it is a portentous one, is the growing spirit of hate and intolerance, manifest in so many places and growing apace, even in our own land. We had thought we were rid of such baleful things, but we are being disillusioned. Gentile against Hebrew. An unrestrained mob against a prelate of the great Roman Church, despoiling his home and offering indignities to his person; political rancor and bitterness reaching lower depths than for a generation; the cherished freedom of individual judgment challenged; these are symptoms that are unwholesome and menacing. They are the breeders of strike and disorder, the sure precursors of cleavages that must issue in war and disaster. There is nothing in our life as a people more precious than freedom to live our lives and exercise ourselves within the law, and to register our judgments through a free ballot and to worship God according to the dictates of conscience. Take these things away and we lapse into slavery and become the vassals of the State. Democratic government and democratic institutions are the heritage of free men. They were bought with a price, they may not be forfeited at any price.

New and strange pressures are upon us today and eternal vigilance and an alert citizenry alone can repel them.

A threatening peril, and it is ever with us, is found in a type of citizenship that is selfish, careless, flippant and indifferent. Sometimes this type is found among those who are made independent through accumulated wealth. They live lives unrelated to the weal of the masses who sweat and toil. They are guilty of extravagances that are vulgar and provocative of class hatred. They have a material wealth that calls for the protection of the state, the state they refuse to serve. While their securities they covet, they do little to protect and insure them. Speaking of such, a leader of a great corporation said to me, "How little these men realize the insecurity of their securities."

In all that I am saying I share with you a high appreciation of material values and what they can mean to us in every form of our life. I am well assured that the religious and beneficent agencies, our schools, colleges, academies, hospitals, orphanages and all our eleemosynary institutions, are largely the product of our accumulated and outpoured wealth. Great benefactions that conserve the best interests of society and of men generally, come to us from the generous hands of those who themselves, in many instances, have known poverty, privation and want. The record of charity in America goes back to humble homes where genius was born out of simplicity and frugality. Out of a broad and intimate experience with men of this kind, I bear testimony as to the depth of their feelings for their less fortunate fellows, and the fine consistency of their stewardship. Despite all misrepresentation and slander, too common in our time, simple honesty compels us to recognize the incomparable generosity of those who in the face of what amounts to persecution, give of their bounty for the enrichment and happiness of their fellows. To magnify unjustly class and mass distinctions, to create bitter rivalries between capital and labor and to foment suspicion, strife and jealously, means ultimately to provoke something approximating civil war. Equal and impartial justice to all, this is the only safe and sane course.

All this has to do with the theme you have assigned me, which is "Spiritual Values in American Life." Everything that I have said is predicated upon a recognition of the indispensableness of spiritual values. It may well be that we have become so accustomed to using for the purpose of making a distinction these terms—spiritual and material—that they have lost much of their true significance. We do not have to define what we mean when we speak of material values and material wealth; but when we endeavor to speak of spiritual values we find ourselves confused if not embarrassed. Let us, then, define these values as those elements of character that make for stability, integrity, sobriety and everything that contributes to decency, self-respect and moral excellence. Let us further assume that these find their warrant and their support in a deep and unchanging religious conviction, a conviction that God rules in the affairs of men. Certainly this is the minimum of faith we hold as a people. We even engrave this belief on our coins, when we declare, "In God We Trust." This is more than a sentiment, it is an essential affirmation of our national belief, and it constitutes the foundation stone on which we have builded the Republic. It is a part of our Anglo-Saxon tradition. Careless and forgetful as we may be at times to what in our better hours we affirm as our faith, we repudiate the suggestion that we have become pagan, that we are a nation without spiritual ideals—morally bankrupt. We can have nothing of permanent or enduring worth without the unfailing recognition of these ideals.

To speak to bankers, whose occupation compels them to deal in material values, about the more subtle and elusive spiritual values seems, on the face of it, somewhat incongruous. Yet may we dare to say that, without the recognition of such values we live in a world of perils and insecurity. Moral character is the hall-mark of credit and the guarantee of honest dealing between man and man. No one knows this better than bankers. It was the late Mr. Morgan who, when asked by a Congressional committee, "What kind of collateral do you call for when you are asked to loan a million dollars?" replied, "Moral character." Better than all securities was the moral worth of the man who sought the loan.

At no time, certainly not in our generation, have moral and spiritual values been so indispensable as now. We are living in a world in which an Englishman has said there is a mortal conflict between Communism and Christianity. Whatever our individual judgments may be, no one who has watched the trend of events, but must be advised of the fact that what we hold of moral and spiritual ideals is being challenged today. Institutions, however strong and stable they may seem to be, demand something other than efficient administration and unlimited capital to sustain them. We of America have built up our great estate through something other than accumulated wealth, inventive genius or mass production. Any consistent survey of the past discloses the moral worth of those who have made and preserved us a nation. Thomas Edison said shortly before his death that he believed we had gone ahead about as far as we could materially, without taking time to catch up spiritually. We have a reasonable fear that in the haste we make to rehabilitate our impaired fortunes we shall lose sight of those deeper, fundamental things that alone secure our peace and our prosperity. The wisest of all teachers affirmed that "Man shall not live by bread alone," and repeated tragic events have demonstrated the infallibility of His judgment. Gold standards fluctuate; the Golden Rule does not change. Just and equitable dealing still occupies first place in the public mind. The Ten Commandments have not been abrogated and public opinion still upholds ethical ideals.

Now and again we have periods of moral laxity in public and private life, but sooner or later violent reactions take place. The people of America have lapses when they are carried afield by the charlatan and the purveyor of palatable but specious nostrums, but awakened and alarmed, they ruthlessly dismiss their misguided physicians and return to those who hold their warrants from accredited American institutions. Lincoln was certainly right when he affirmed that you cannot fool all of the people all of the time.

In the face of an age characterized by a tendency to give too much heed to secularist, materialist and un-American political doctrines, we believe that at heart we are still a nation motivated by high ideals and responsive to a spiritual conception of life. It was Lord Bryce who admonished a young Englishman coming to this country that he must be informed that he was coming to a people governed by ideals. Let us assure ourselves that Lord Bryce was right. I fully realize that too frequently we think of ourselves as excelling in business sagacity, and that we are possessed of a genius for trade. This is true, but we do not believe that this and this alone constitutes the real greatness of the American Republic. These sobering years are teaching us the profound truth that "where there is no vision the people perish." Louis Kossuth, the Hungarian patriot, said of America 80 years ago:

"If your Ship of State is ever lost, the rock upon which it will split will be the devotion of your people to their private interests at the expense of the State."

The question that bankers, merchants and men of affairs must answer, and answer definitely today, is, can we build with security and the assurance of continuing peace, without making more dominant in our life those moral and spiritual ideals that are the sure footings on which we have builded our estate in the past? Does America have a philosophy of life that is sufficient to sustain her in a world confused and distracted by conflicting theories of government? Nothing could be more tragic than that we of this free land should be intrigued and beguiled by doctrines and systems wholly alien to our ideals. We are too lenient, altogether too lenient, in dealing with those within our own borders who are propagating alien and un-American doctrines, making their traitorous appeal especially to the fertile minds of the youth, doctrines that, unchecked and undispelled, must ultimately produce a situation wholly destructive of all that we hold of American principles and American institutions.

We cannot look out upon the world today without feeling that something is radically wrong with our view of life and its deeper meaning. We have seen the failure of pacts, agreements and treaties, solemnly entered into by sovereign States. We see nations attempting to secure themselves through increasing armament, navies and armed forces. We find the quest for economic security growing so universal that it requires the utmost cunning and skill to compete with it, and along with all this we have a fresh exhibition of national and racial hatreds that suggest the days of feudal strife and conflict.

To keep this western continent free from foreign entanglements and to safeguard our treasures against jealous and rapacious neighbors has driven us to a defense program such as we have never known in peace times. Only a week ago we were celebrating again Armistice Day, but it is a day that has largely lost its meaning. The war to end war has failed of its purpose. Something went wrong in our calculations! We did not reckon with those elements in human nature that cannot be held in leash, saving through the inculcation of strong moral and spiritual principles. There is still in humanity, uncurbed and unrestrained, elemental qualities that yield only to deep moral persuasion. A police force and well-conceived laws do not make a people moral, decent, or self-respecting. Do what we will through education, culture, the arts, mechanical skill, and whatever else we contrive for improving living conditions, they all fail us when we permit the spiritual in man to be forgotten and neglected.

Right here let us say that forgotten ideals do more to make possible forgotten men than all our other sins of commission and omission. Any proper review of what has happened in our modern world makes it clearly evident that at the root of all our bitterness, unrest and disillusionment, resides a definite and conspicuous moral sag. To this we must address ourselves, and do it with the same intelligence and persistence we employ in conserving our large material interests.

What I am venturing to say to you is not born of any conceit of office or any superior claim to infallibility of judgment. It is the serious reflection of one who is trying to be just and generous in appraising the life of his time and who, out of sheer love for his fellows, is trying to discover the safeguards that will protect the oncoming generation, especially the youth, from perils that now seem so portentous and threatening. We deplore conditions that have produced intolerance, ungenerous rivalry and hate. We believe we are the inheritors of an estate so precious in men and resources that it must be preserved and maintained at all costs. We believe that American ideals and American institutions are of such worth that nothing must hinder their free progress. We believe that America has a soul, as well as a well-filled purse.

As yet we have but touched and touched lightly our resources; our mines and granaries are capable of serving our ever-growing population. One hundred and fifty years have witnessed such a development here as the world has never before seen. For all this we thank God and praise Him for His bounty. It is such a vision that makes us zealous for the future. It is such a restrospect and outlook that compels us to press the high claims of spiritual values.

Stabilized and strengthened by a resurgence of these values, we can stand before the world richer in character than we are in gold and material gain. Let us translate these values into practical terms of helpful, beneficent service and make America, not the envy of less fortunate nations, but the exemplar of all that is best and truest, most just and righteous, in all human relationships. For this high emprise God gave us our heritage; to preserve it we rededicate ourselves with deepened loyalty and high consecration.

Problems that Confront Nation Transcend All Questions of Parties or Partisanship

By the President of the A. B. A., ORVAL W. ADAMS, Executive Vice-President of the Utah State National Bank, Salt Lake City, Utah

Members of the American Bankers Association, Ladies and Gentlemen:

In approaching the final assignment in my official duties, I do so with grateful appreciation of the loyal support that has been given to me not only by the able men in the headquarters office, but by all of you. Especially am I thankful for the splendid cooperation received from Phil Benson, Robert Hanes, and Mike Mallott. Some of the accomplishments of the Association during the past year should be reported. This can be done with propriety since in large measure the credit goes to my associates and the official force, all of whom have cooperated intelligently and effectively.

Fred Shepherd, former Executive Manager, is to be given credit for having gathered together such a loyal and able group of men.

It is difficult for me to refer to Dr. Stonier without indulging in superlatives. He's a real pal. In him we have not only an able executive, an economist of note, but a genius in public relations. In education, he demonstrated his leadership in the organization of the eminently successful Graduate School of Banking, his brain child. He brought with him, as I believe no other man could have done, the cooperative goodwill of the great group of the bank employees in America. As their leader in the American Institute of Banking, he earned their loyalty and devotion. There is no asset of greater value to the American Bankers Association than the goodwill of the thousands of young men and whomen who serve in our institutions.

In the same breath, I must pay tribute to Frank Simmonds, Senior Deputy Manager, whose efficiency and uniform geniality have done so much for the solidarity of our great Association. The American Bankers Association is a real fraternity and Frank, more than anyone else, has made it so.

The Association has made definite progress during the past eventful year. The membership record shows that 803 banks came into the organization. Thanks to Fred Cuscadin, Espey Albig, the State Secretaries, and the hard-working membership team for this showing. The Association now speaks for more than 76% of the banks of America. It means that today banking is more united than at any time in recent years. It has been responsive to the interest and needs of its members.

In large measure the recommendations of the Survey Committee have been made effective. To that committee and its courageous and able Chairman, Dick Hawes, the Association is deeply grateful. The work of Bob Hanes, Chairman of the Federal Legislative Committee, has been outstanding. A lot of credit is due him and his able committee. Bill Irwin, Assistant Educational Director of the American Institute of Banking, and Lester Gibson, in charge of the News Bureau, the two new men coming into the organization, have demonstrated real worth.

All of the commissions and divisions are working harmoniously to carry on the work. The journal "Banking" is making a noteworthy contribution in its field. I salute Bill Kuhns. In addition to the secretarial work in the American Bankers Association, Dick Hill is doing an outstanding job in the Graduate School of Banking and the American Institute of Banking. He is a genius in organization.

The American Bankers Association can function effectively down through the rank and file of its membership only with the close cooperation of the State Secretaries Section. No President can discharge his obligations without an intelligent appreciation of the work of this Section which is the right arm of our organization. I acknowledge the helpfulness of the State Secretaries.

The administration closing with this convention has been a grass roots administration, representative of the rank and file of banks everywhere. It gives me pleasure to report (and that's a mouthful I enjoy) that the budget is in balance.

A Washington office has been established, in charge of the General Counsel of the Association—Sam Needham. It exists to serve all members and they are invited to use it. An organization has been effected known as a Research Council—"Facts First" is its slogan. Col. Leonard P. Ayres is its Chairman and he is ably assisted by Gurden Edwards.

No department in the Association has made more definite progress than the Department of Public Relations, headed by our Executive Manager. You are urged while in attendance to visit the Public Relations Laboratory on the mezzanine floor where the activities of the Association in this field are being shown. You are also urged to attend the Constructive Customer Relations Clinic in the Rice Hotel this evening.

Bankers, like other businessmen, are interested in dollars and cents values. The American Bankers Association offers them, too. The Insurance Committee of the Association has negotiated rate reductions on blanket and fidelity bonds which this year saved the banks of this country $1,390,000 a year in premiums. Last year savings of $1,345,000 were obtained. Jim Baum, head of the insurance work, knows his business. You must remember that these savings are permanent and go on year after year. They actually represent each year more than twice the annual dues received by the Association.

Who says he cannot afford to belong to the American Bankers Association? Unity and growth of our great Association is vital to the banks of America. With 76% of the banks having membership, our combined voice will be a powerful influence. A house divided against itself will not stand. The membership cannot serve more than one organization without the loss of prestige, power, and influence. The great majority of the membership in the Association represents independent banking as opposed to concentration of the banking resources in branch systems, the further extension of which will create a money and credit monopoly more dangerous to and destructive of the American system of States rights than any other form of capital concentration. If an overwhelming majority within our Association is not sufficient to make permanent the American system of independent banking as against the ever threatening extension of branch banking, then I believe it is absolute folly to hope for that great task to be accomplished outside our ranks.

Our regional conferences achieved new heights of usefulness this year. They were held in three sections of the country. At these conferences a new trail was blazed in public relations. At the close of each conference the message of banking was taken to the public through a gifted speaker at a mass meeting for the customers of banks. Thousands of people were reached through these meetings. Two State Bankers Associations have since taken up the idea. The Utah State Bankers Association held a public meeting at the close of its convention last June which was attended by 15,000 invited patrons of banks. The Wisconsin Bankers Association held a series of such meetings in five Wisconsin cities and reached an aggregate of 10,000 people. I am told that other banking groups are considering similar plans. A new way has been found to reach the public and to educate our depositors and fellow-citizens in economics and banking. It ought to be developed further.

These meetings are the realization of a plan proposed a year ago. At that time I maintained—and I believe even more firmly in it now—that we are under a sacred duty to protect the value of the savings of our depositors and that to do this, we must tell them what is happening to their savings.

The millions of savings depositors and life insurance policyholders were greatly pleased when the President of the United States himself was gravely concerned with respect to that very matter. In his message to Congress on March 10, 1933, he said:

"For three long years the Federal Government has been on the road toward bankruptcy. With the utmost seriousness I point out to the Congress the profound effect of this fact (the accumulated deficit of five billion dollars) on our National economy. It has contributed to the recent collapse of our banking structure. It has accentuated the stagnation of the economic life of our people. It has added to the ranks of the unemployed. Upon the unimpaired credit of the United States Government rests the safety of deposits, the security of insurance policies, the activity of industrial enterprises, the value of agricultural products, and the availability of employment. The credit of the United States Government definitely affects these fundamental human values. It therefore becomes of first concern to make secure the foundation. National recovery depends upon it."

The President was then very properly concerned with an accumulated deficit of only five billions of dollars, a deficit accumulated in three years. *We are now* much more justly concerned with an ever-increasing and growing deficit which, since the date of the President's concern, has grown by 15 billions of dollars. Not only the size of the present Federal debt, but the present trend of such deficit is a matter of concern to us. Permanent recovery will begin only when the deficit trend is reversed through a reduction in Government expenses and a broadening of the tax base. Only a broadening of the tax base can create that tax-conscious citizenry without which no democracy can long endure.

With public spending out of control, upon us as bankers rests primarily the duty of protecting the savings of the American people. It is an economic truth that as the Government debt and the Government deficit increase, the purchasing power and value of savings decrease. I feel more confident than ever that it lies in our power to render real service in protecting such savings.

The obligation resting upon us is equaled only by that resting upon the life insurance companies who, like us, are the custodians of the hard-earned savings of the millions of self-reliant American people, working men and women, farmers, laborers, teachers, professional and businessmen. Our opportunity to be of service is perhaps greater than that of the insurance companies.

It is not difficult to state the problem. It is this: How can a stop be put to the constant gnawing away by Government, at the instance of and for the supposed benefit of various pressure groups, of the value of the savings of the only large *unorganized* group of our citizenry?

To my mind there can be but one answer. It is to bring to this group, the depositors and holders of life insurance policies, a full realization of what is happening to them.

The banks of this country, as custodians of their depositors' money, are in duty bound to warn their depositors and the general public that a governmental policy of reckless borrowing and spending which tends to squander the patrimony of the State can end only in wiping out the accumulated savings of those who have placed their money in the banks for safekeeping and investment.

Bankers are in a position to know the deadening effects of misguided governmental financing on the entire industrial life of the Nation. They know that as the flood of Government securities rises, the outlets for investment in normal wealth-producing, labor-employing enterprises, are closed. They see that the service charge on the mounting public debt increases more rapidly than does the total annual income of the people. They see the country moving in a vicious circle. Increased taxes are already so great a charge on industry as to slow down production. The effect is increase of unemployment, added millions spent in unemployment relief, and still greater employment-killing taxes. They see vast sections of industry staggering under the burden of the cost of Government and obliged to fall back on Government aid, all the while knowing that such aid only adds further to the weight of the debt the Nation must carry. They know that every dollar of such debt is, in the end, a lien on the savings of our public.

If the present disastrous course is to be stopped before it is too late, the millions of holders of insurance policies and bank depositors must be acquainted with the facts. I know that we can do much to bring this about.

Let us be specific. There are doubtless some depositors who open accounts with little consideration as to the selection of a bank, depositors who rely upon the Federal Deposit Insurance Corporation, and look no further. But the great majority of depositors, little as well as big, do business with you because they have confidence in your integrity and ability. They are your friends; they would be even more your friends if you did more to deserve their friendship; if you did not leave vicious and destructive propaganda unanswered, and keep silent while Government at one and the same time reaches greedy hands for the savings of your depositors, closes the door to the profitable use of their deposits in industry, and loudly accuses you of responsibility for all the ills resulting from its actions. Silence implies consent, and we may be sure we shall reap the just reward of our indifference or timidity in the loss of the confidence and friendship of our depositors if we keep silent now.

This should be a good starting point.

Your depositor will not disagree with you when you tell him that you cannot make a loan unless someone desires to borrow money from you, nor will he disagree with you when you tell him that you will not knowingly make a loan even to such a borrower, unless you are convinced that the borrower can repay the loan.

Your depositor will not disagree with you when you tell him that in order for you to determine whether a borrower can repay a loan it is necessary for you to know the financial condition of the borrower, to know his resources, to know the outlook for his business, to know his costs, and potential market. To go a step further, your depositor will readily recognize that the would-be borrower cannot determine whether he can profitably use the money he seeks to borrow, unless he has a knowledge of his costs and can estimate with some fair certainty his margin of profit.

Your depositor will agree that to do this the borrower must know approximately what his taxes will be, what his labor costs will be, and what volume he can expect to market as well as the prices at which it can be marketed.

It should not be difficult to satisfy any man of average intelligence that when Government itself is unable to forecast its expenditures, but must constantly revise its budgets, the ordinary businessman cannot accurately forecast his tax costs. Nor should it be difficult to demonstrate to such a man that in the long run tax costs include not only immediate taxes paid but Government borrowings; that the business-man must take the same account of the necessity of repaying such borrowings, and of the consequent burden ahead of him, as he must take of immediate taxes.

Your depositors, I believe, would find little difficulty, were their attention called to these facts, in concluding that when there are nearly as many people living off the Federal Government as there are owning savings accounts, some part of the interest which the depositor had been accustomed to receive is very likely being diverted to the support of this other class. Your depositors know that Government produces nothing; that it gets its moneys through taxation or borrowing; and that since 1933 taxes have gone up, interest has gone down, the number on relief has increased, and the number profitably employed in private industry has diminished. It would not need much to lead them to tie these facts together and to determine for themselves what cause has produced this result.

Over 100 years ago that great Democrat, Thomas Jefferson, tried to look down the pathway of the centuries and visualize the dangers that might befall the young Republic he had helped to found and to which he had devoted the best thought and energy of his life. He loved that youg Republic as a father loves an only child, and he laid down certain rules to insure its safety and preservation, rules and principles so basic and fundamental that they deserve to rank and live with the admonitions contained in Washington's immortal farewell address. Thomas Jefferson said:

"I place economy among the first and most important virtues, and public debt as the greatest of dangers to be feared. To preserve our independence we must not let our rules load us with perpetual debt. We must make our choice between economy and liberty or profusion and servitude. If we run into such debts, we must be taxed in our meat and in our drink, in our necessities and in our comforts, in our labors and in our amusements. If we can prevent the Government from wasting the labors of the people under the pretext of caring for them, they (the people) will be happy. The same prudence which in private life would forbid our paying our money for unexplained projects forbids it in the disposition of public money. We are endeavoring to reduce the Government to the practice of a rigid economy to avoid burdening the people and arming the Magistrate with a patronage of money which might be used to corrupt the principles of our Government."

So long as your depositors think of the purchase of Government bonds by you as something that *you* do, not something *that* they do, they will remain indifferent to it. When once your depositors realize that 20 or 3 or even 40% of their deposits have been invested by you in the obligations of a concern which has been losing money by the billions for more than seven years, their reaction will be quite different.

So long as your depositors, and the holders of life insurance policies listen to the sweet words of Congressmen and administrators respecting the benefits to flow from the construction of hydro-electric power plants (commonly called flood control measures) and the sale of power in competition with existing private plants, they will remain indifferent. But when once their attention is called to the percentage of the value of their deposits or of their insurance policies represented by investments in such private plants proposed to be destroyed with moneys taken from them through taxation, their reaction again will be quite different.

So long as your depositors hear only that it is a policy of Government to reduce interest rates, they will applaud, but when once they understand that interest rates are reduced at their expense; that in fact, in addition to all the direct and other indirect taxes to which they are subject, they as a class are paying a special and direct though invisible tax equaling in amount the reduction in the rate of interest payable to them, which has inevitably resulted from the policies of Government, their applause and approval will cease.

Your depositors as a class doubtless approve of the Social Security Act. Most of them don't know that the billions collected from employers and employees are being spent to meet the current expenses of Government. These depositors do not realize the beneficiaries of this Act must look to taxes yet to be levied, not to those presently being levied, for the purpose of the old age pensions contemplated by the Act. They do not realize that there is no legal obligation and no worthwhile assurance that such taxes for the purpose of paying such benefits ever will be levied, when the pensions are due. Nor do they realize that if the present fiscal policies of the Government continue it may not be possible to collect the taxes levied.

Your depositors as a class believe in fair dealing. They are opposed to violence, trickery and dishonesty. Do you not feel sure that if your depositors understood how one-sided the National Labor Relations Act is, both in its wording and in its administration; how it operates to the benefit of certain radical labor leaders rather than of laboring men, how it has bound and gagged industry and prevented its recovery, they would demand suitable amendments of such Act. I am glad to observe that the fair-minded labor leaders are among the foremost to propose changes in this unfair Act. Your depositors, as typical Americans, are opposed to taxation without representation. Can it be doubted that had they knowledge of the facts they would demand an amendment of this Act to provide for proportional representation of all labor in a plant, instead of leaving all labor to be represented by the leaders of a group which has succeeded in convincing a partisan board that it represents at least a bare majority of such workers.

I am confidence that my observations express your convictions, and the convictions of informed people generally, who are aware that our present governmental fiscal policies are drifting with ever-increasing speed into Government planned economy, State capitalism and totalitarianism. The experience of European nations with such policies forces us to the conclusion that the inevitable result of such planned economy is ultimate dictatorship. The centralization of Government in this country, with Government expenses mounting more rapidly than the increase in National production of wealth, together with the rapid and unprecedented extension of governmental control and management over the entire industrial life of the Nation, all point with deadly logic in the same direction. This is a tendency which, if not checked, will move strongly into some form of national socialism or Fascism. The fate of the country—not merely of the banks—is involved in this trend.

We need have little fear that subversive alien propagandists, menacing as their presence may be, will persuade the American people knowingly to adopt the political economy of nations like Germany and Russia. But there is much reason to fear that the public will be led into just such a surrender of its civil and political liberties without the people understanding, until it is too late to detect the significance of what they are doing.

As an American citizen I am convinced that our people will not accept the establishment of a totalitarian state in this land—if they are able to recognize it as it creeps upon them. There are among us a few who would exchange political liberty for what they imagine would be "economic security." But where is there such economic security or liberty under the dictatorial government which planned economy requires? It is foolish to imagine that economic liberty or any other freedom is possible without political liberty.

All types of government at all times have shown the same disposition to extend their functions at the expense of the lives, property and liberty of their subjects. Democracies are no exception to this rule. Politicians tend to make office holding a vested interest. Political party organizations are built up by the common practice of subsidizing their members out of the public treasury when in power. It is to their advantage to have more revenue to spend—to create more jobs with which to reward party workers, to be able to place more and more people on the public payroll, and to have so many citizens financially dependent on their public policies that they may successfully keep themselves in office. Once a party is powerful enough, by such methods, to crush its rivals and modify constitutional restrictions on the extension of its power, it will transform the Republic into a dictatorship.

But suppose now that the Congress ceases to operate as a check on Government spending, suppose that politicians further perfect the trick of corrupting the public with its own money, and with a mistaking philosophy of an "economy of abundance" under Government management, lead one-third of the population to permit this political despoliation of the national wealth in the expectation that people will get something for nothing out of the public treasury. What happens then? Historians and the wisest political thinkers of all time have told us again and again that that is precisely the manner in which all preceding democracies have destroyed themselves.

The age-long struggle for human freedom is a precious and hard-won inheritance, a sacred trust committed to our generation by the noblest spirits of the past. Few will maintain that we have kept this treasure untarnished by folly and greed. But surely the basic principle of political liberty, the principle of the consent of the governed, is not to be abandoned without consideration of its alternative. Give up the attempt to secure such assent to public policy and you lose the sense of the worth and dignity of human life; men and women become the helpless pawns of the State and Government becomes the master of men, not the servant. Consideration and respect for individuals and minorities is lost; the people become the slaves of demagogues turned tyrants. We hear much today of the evils of "capitalistic exploitation." Where such evils exist all right-minded men will welcome their removal by wise and just legislation. But we should see that the cure is not worse than the disease. It is the plain lesson of history that unrestricted government is and always has been the worst exploiter on earth. If we are to retain any vestige of the consent of the governed, we must, like our fathers, be guardian against any effort to extend and multiply the powers of government. This vigilance is the price of our liberty.

Bankers have in general the same rights and duties as all other citizens, but they are in a sense preservers and trustees and as such have certain particular duties and obligations to the public in general and their depositors in particular. It is the first duty of a banker to protect the money of his depositors. Profits must be sacrificed and the interest of stockholders subordinated to the performance of this first duty. No banker must be coerced or fooled into doing acts or adopting lending policies which sad experience has taught can lead only to one thing: Loss to depositors, loss to stockholders, and injury to the entire country. By way of self-defense and in order to save the American system, we must organize our depositors and give them and all others who have accumulated something an economic education. This is the only practical way I know of to resist the pressure groups and vote-buying politicians who are destroying and wasting the savings of our depositors, and of all of our citizens who have worked and saved.

Let us not hesitate to do what we know to be right. The American Bankers Association must take the offensive, the offensive against reckless and extravagant public spending, for we know what that must mean to our depositors. We have been long enough on the defensive. We have been silent and patient too long. It has brought us only grief, and still more grief.

Never should the American Bankers Association remain silent when politicians are spending the country into bankruptcy. We must take the battle to our depositors. We must make them realize that it their fight; that 90% of the assets of the banks of the country belong to them; that without their cooperation we can do little to preserve the value of their savings. We cannot too often remind ourselves that the only source of revenue a Government has is taxes, and that taxes must come, directly or indirectly, from surpluses, earnings, or from capital of individuals; that as the expenditures of Government increase taxes must increase; that if current earnings from business and individuals are insufficient to meet the demands of Government, the reserves, surpluses and savings will be taken from the people. We must realize that ultimately the capital itself will be demanded; that what is taken in taxes is not available for private use, and that when the demands of Government become too great production is starved, and the strength of the Nation is destroyed.

To the proposition that the worthy needy must be taken care of, the American Bankers Association is sincerely and wholeheartedly committed. But we must not forget that the destruction of savings, and the staravtion of production mean the loss of the capacity to take care of the needy: that it is the thrifty citizen and not the Government that must produce the money for this purpose. In the last analysis, the interests of those on relief are identical with the interests of our depositors, for Government cannot care for the needy one moment longer than it remains within the capacity of the thrifty, saving people of America to provide it with the necessary funds.

The problems that confront us transcend all questions of parties or partisanship. They involve the future welfare of our country and all that stands for as the world's greatest democracy, and must be solved by us as citizens of the Republic and not as members of political parties. Our unemployment problem, our labor relations problem, our relief problem, and other major problems are primarily social and economic problems—and must be approached and solved as such. It is vital that our relief work be placed in the hands of local, non-partisan administrators who will put an end to the distribution of relief funds for political purposes. If we are to maintain our rights as free men, if we are to preserve our institutions, we must take relief out of politics. Let no man be naive enough to believe that a change of party control will solve this problem, for the technique of organizing the relief vote has been so perfected and its vote-getting efficacy so clearly established that the politicians of one party will continue to do what the politicians of another party have already so successfully done.

This relief problem is one of the most important problems that confronts us. Unless it is solved national elections will become a meaningless farce and our system of Government with its three coordinated branches of checks and balances will be doomed.

To recapture control in Federal spending is the most vital issue confronting this great democracy. Only on the foundation of a sound fiscal policy can the priceless heritage of our economic liberties, freedom of initiative, freedom of competition, freedom of contract, the rights of private property, the right of bequest and individual responsibility be preserved and only on the foundation of a sound fiscal policy can the civil liberties, free government, freedom of the press, freedom of speech, freedom of assembly and freedom of worship be preserved. Let it sink deep into our consciousness

and into the hearts of every liberty-loving American that if national bankruptcy should come, an emergency will be declared, dictatorship will follow and all these blessings enjoyed in this land of free men will be in jeopardy.

Ponder, I beseech you, the distress in France at this very moment as the result of unsound fiscal policies. We must approach these problems firmly and courageously, but in good temper and without malice. We must seek, as Lincoln said, "to bind up the Nation's wounds"—not to make new ones. In our campaign of education let us never be guilty of sowing seeds of bitterness. Let us be careful not to array class against class, but rather to show that all of us in this country constitute and are members of one large family; that our interests are basically mutual and that all of us, regardless of rank or station, will either go up or go down together. Let us, therefore, seek a solution of these problems not as partisans, but as Americans motivated in all that we do by a spirit of fairness, humility, lofty partiotism, and a prayer to the Master of Men for His help. Free men never enlisted in a worthier or nobler cause.

Committee and Officers' Reports—General Session

Report of Economic Policy Commission by the Chairman, Leonard P. Ayres, Vice-President of Cleveland Trust Co., Cleveland, Ohio

Business Recovery and Banking Prospects

During recent months business activity has been increasing in this country. This present improvement of trade and industry is not a mere continuation of a long-term rising trend which had been briefly interrupted by an intermediate decline. It is instead a new and independent period of business expansion following the exceptionally severe decline which continued from the summer of last year to the summer of this year, and carried most activities of trade and industry down to low depression levels by last spring.

This present business upturn clearly appears to mark the beginning of a new business cycle. Trade cycles, or business cyles, are the recurring waves of general business activity which bring about the changes in our industrial and commercial affairs which we know as the transitions from depression up through recovery, on to prosperity, and then downward to decline, and back to depression once more. These waves of business which we know as cycles are irregular in size, and irregularly spaced. At present we have entered upon the stage of this new cycle which students of such matters have designated as revival, or upturn, or expansion.

It is as yet too early to judge whether this new cycle is likely to be a minor one, or to develop into a major cycle, but we do appear to be in the beginning of a new business cycle, many convincing symptoms of business improvement having already made their appearance. For some months past the market prices of bonds and stocks have been moving upward. There has been a vigorous increase in the physical volume of industrial production. The volume of employment has increased. The flow of national income has stopped declining, and has begun to advance. The amount of new financing through capital issues has grown larger. These are convincing evidences of the increasing vigor of general business activity.

Bank Profits

Up to the present time most banks have not profited much from the business improvement that has been taking place. Indeed it may well be that banks in general may not derive much direct profit from this business expansion, even if it continues with unabated vigor throughout next year. One of the most impressive of the many recent innovations in the nature of the banking business is that changes in general business conditions, either for better or for worse, do not affect banks nearly as much as they used to in the years before the great depression.

So far in this period of business expansion there has not been any increase in the volume of commercial loans, and the history of banking over the past 25 years indicates that it would be unwise to expect much increase in the near future. In the days before the establishment of the Federal Reserve System bank loans regularly and promptly expanded with each return of recovery following depressions. Such expansions in the volumes of bank loans took place vigorously in the business recoveries following the depressions of 1884, 1893, 1903, 1907 and 1914.

In the years since the establishment of the Federal Reserve System in 1914 there has been only a laggard increase in the volume of bank loans in periods of recovery. In the severe depression of 1921 business recovery began to get under way in the spring of that year, but the commercial loans of member banks did not begin to increase until a year and a half later, in the autumn of 1922. Increases in bank borrowing developed still more slowly in the period of recovery from the great depression.

From the viewpoint of banking the bottom of the great depression may well be considered to have been reached at the time of the bank crisis in the early spring of 1933. Recovery got under way promptly, but it was not until 2½ years later, in the autumn of 1935, that there began to be any real increase in the volume of commercial loans made by banks. So far in this recovery business improvement has been under way for six months, and in view of the records of previous recent recoveries it would not be astonishing if important increases in the volume of bank loans should be deferred for a considerable time to come.

Cash and Loans

Our banks have never before had so much money available for lending as they have now, and it is probably true that they have never before been so anxious to make loans. It is a noteworthy fact that for the first time in our banking history our banks now hold more cash than the totals of their outstanding loans of all kinds. Five years ago in June of 1933 the cash holdings of all reporting member banks were 48% as great as the total of all their loans. In 1934 cash was 65% of loans. In 1935 it was 84%, and in 1936 it was 99%. Last year it declined to 91%, and this year it has increased to 114%.

It now appears probable that prevailing interest rates will continue during the coming year at about their present low levels. Interest rates charged on bank customer loans did not advance during the last recovery period, and it does not seem likely that they will advance much, if at all, during this new recovery that has recently been getting under way. It may well be that any important advance in rates charged customers would result in more harm than benefit for most banks. Such an increase would almost surely be accompanied by an advance in bond yields which would bring with it a decline in bond prices.

Since the security holdings of banks are very large as compared with their loans, the resulting book losses on their bonds would be so considerable as to outweigh in importance the increased revenues from loans. Bond prices are now at the highest levels ever reached, and one of the questions of special interest to bankers is whether or not they will probably continue to rise during such a period of business expansion as may develop in the coming months.

There is no way to answer that question, but it is worth noting that when bond prices reached their highest previously recorded levels, they declined slowly but persistently during five years of almost unbroken business prosperity from 1899 to 1903. Moreover a little later while they were still very high they declined throughout nearly three years of business prosperity in 1905, 1906 and most of 1907. It is clear that the mere existence of business prosperity does not insure a continuously rising bond market.

Deposits

Bank deposits have recently been rapidly increasing, and it appears probable that they will continue to increase in the coming year. The two principal causes of the increases of deposits in recent years have been the great imports of gold, and the huge advance in the public debt. It seems quite improbable that foreign gold will continue to arrive in this country during coming months in the large volumes that have been recorded in recent months, but neither does it seem likely that there will be large-scale exports. On the other hand it does seem probable that there will continue to be important increases in the public debt, and so it is reasonable to expect that there will be further advances in the totals of bank deposits.

Capital Flow

Of course, it is impossible to estimate now the probable magnitude and duration of this present expansion of business activity that has recently developed. We know that the course of business activity in this country during the coming year will depend on such varied and unpredictable elements as the prospects for peace in Europe, the prosperity of agriculture at home, the degree of success that may attend the efforts of the railroads and the public utilities to deal successfully with the difficulties that confront them, the public demand for the new automobiles, the willingness of our people to build new homes, and so on through an almost unending list of factors affecting industry, commerce, agriculture and construction.

If we could now select the single element that is likely to prove of most decisive importance in controlling the duration and degree of this new period of expansion, that one most potent influence would probably be the volume of new capital issues floated by corporations for the financing of enterprise. The capitalistic system depends for its growth and vigor on the flow of new capital going into new plants, new equipment, enlargements and betterments.

In earlier decades the new financing done in this country was always predominantly that of corporations except during war times. The entire new financing of the Federal Government, the States, and all the municipalities used to be far smaller in volume than that of the corporations. Now the proportions are greatly changed, and in the first eight years of this decade of the 1930's the new financing of the governmental agencies has been about five times as great as that of the corporations.

Recovery

In the years before the great depression commercial banks earned far greater profits in times of prosperity than they did in periods of bad business. When business recovery came the larger institutions made important profits from the underwriting of new capital issues, and their bond departments made large earnings from the distribution of securities. Moreover before the establishment of the Federal Reserve System both the issuing of new securities, and the expansion of commercial loans regularly took on new vigor as soon as business recoveries got under way.

Under present conditions business recovery has an entirely changed sort of significance for American banking. Rates charged customers for loans no longer advance as better business develops. The volume of commercial loans does not increase until long after business improvement has become well developed. Bankers now note with interested attention the increases in capital flotations because they know that new issues are essential to recovery, but they can no longer regard them as an important source of revenue.

The members of your Economic Policy Commission rejoice that business expansion is under way, and that it appears likely that recovery will continue in the coming year. They are constrained to observe that the blessings of recovery will largely redound to the benefit of those not engaged in the business of banking. The demand for commercial loans may be expected to advance tardily and in small degree even if recovery continues for a number of months to come, and the interest that can be charged on such loans is unlikely to advance.

Recovery may increase the volume of real estate loans, and it may sustain the market prices of bonds, and for these possibilities bankers are duly thankful. Prosperity is always better than depression, and recovery is ever to be preferred over decline. Bankers are united in greeting with whole-hearted enthusiasm the prospects for further business improvement even though their own participation in its economic benefits may not be of major magnitude.

Report of Official Acts and Proceedings of Executive Council, Presented by Richard W. Hill, Secretary of A. B. A.

President Adams: Secretary Richard Hill will read the Official Acts and Proceedings and it is not necessary that the convention approve such.

Secretary Hill: Since the adjournment of the convention at Boston, Mass., the Executive Council has held meetings Oct. 14, 1937, in Boston, April 12 and 13, 1938, at Edgewater Park, Miss., and Nov. 14, 1938, at Houston, Texas. At the meeting in Boston, the Council elected M. H. Malott Treasurer and Harold Stonier Executive Manager. The committee, commission and other appointments presented by the President were approved. At the meeting at Biloxi on April 12 and 13 specific instructions were given to the Committee on Federal Legislation regarding bills then before Congress.

Favorable action on the following items was taken:

Establishment of a Public Relations Council; establishment of a Research Council; establishment of a house organ called The Council; organization of a News Bureau; a registration fee at annual conventions; educational exhibits at regional conferences and at the annual convention; inclusion of the Uniform Principal Income Act in the Association's program of State legislation.

At the meeting in Houston on Nov. 14, 1938, favorable action was taken on the following matters:

Report of the Chairman of the Finance Committee showing an excess of income over expenditures of $3,165.52 for the year ending Aug. 31, 1938.

Report of a special committee on the Barkley bill stating that no further action is necessary at this time.

Recommendation that the proposed legislation on interbank deposits be opposed.

Report of Research Council on Intermediate Credit for industry, recommending that no publicity be given at present to preliminary report of the National Industrial Conference Board on this subject.

Recommendation that the Wagner Act and its possible effect on banks be referred to the officers of the Association with power.

Recommendation to the Committee on Federal Legislation to urge the Board of Governors of the Federal Reserve System to extend for one year permits allowing dual directorship. It was reported by Mr. Hanes that the Board of Governors of the Federal Reserve System had issued a regulation setting Aug. 1, 1939, as the deadline for the relinquishing of dual directorship.

Amendment to Association by-laws bringing appointment of personnel of Bank Management Commission in line with the appointment of other commissions.

Reaffirming position of Administrative Committee on elimination of double liability on State banks and favoring the elimination of the double liability in those States having referenda on this question.

Action of Executive Council in Referring to Resolutions Committee Resolution on Branch Banking

President Adams: I shall now ask the Secretary to read a communication from the Executive Council.

Secretary Hill: I shall read an extract from the minutes of the meeting of the Executive Council held last evening:

The Executive Manager presented a resolution that had been filed with him by a member of the Association. He stated that this resolution was received by him 15 days prior to the opening of the Houston convention and that under the Constitution it was his duty to present that resolution to the Executive Council for consideration. He further stated that under the Constitution the Executive Council must report the resolution to the Convention with its approval or disapproval. The resolution follows:

RESOLUTION

Whereas, The American system of unit banking has been and still is peculiarly adapted to the highly diversified life of the United States and best serves its every need, and,

Whereas, Any system of branch banking operates to centralize the control of money and credit and creates thereby a monopolistic form of concentration inconsistent with and destructive to the American system of unit banking, and,

Whereas, Group banking and holding company banking is a system of control equally as monopolistic and destructive to the American system of unit banking, and,

Whereas, The rapid and widespread growth of branch banking, group banking and holding company banking is cause for genuine alarm and threatens to undermine and destroy the American system of unit banking,

Now, Therefore, Be It Resolved, First: That the American system of unit banking, be, and the same is hereby declared to be the system of banking best adapted to serve the communities of each State of the United States of America.

Second: That branch banking, group and holding company banking control and operation, be, and the same and each of them are hereby condemned as monopolistic and forms of banking control and bank centralization which if permitted to continue will weaken and destroy the American system of unit banking.

Third: That the Congress of the United States of America and the Legislature of each State thereof should be forthwith memorialized to enact appropriate laws prohibiting branch banking in any form and the control or operation of any bank or banks through group and holding companies.

And, Be It Further Resolved, That the officers of this Association and the appropriate committee or committees thereof, be, and they and each of them are hereby instructed to transmit copies of this resolution to each member of the House of Representatives and of the Senate of the Congress of the United States.

After some discussion William S. Elliott as Chairman of the Executive Committee of the State Bank Division presented a resolution that was adopted by the Executive Committee of the State Bank Division on Nov. 13, 1938, reading as follows:

"We emphatically reaffirm the action of the convention held at Boston in 1937 wherein the position of the Association was stated with regard to the dual system of banking, branch banking, and the autonomy of the laws of the separate States with respect to banking, by definitely opposing any proposal or device looking to the establishment of branch banking privileges across State lines, directly or indirectly. As stated in the preamble to the Boston resolution, we reaffirm the binding effect of this declaration on all divisions, committees, and commissions of the American Bankers Association."

On motion duly seconded and carried this State Bank Division resolution was approved for the purpose of its inclusion in the report of the Resolutions Committee, providing that the Resolutions Committee approved that resolution. After some discussion of the resolution presented by the Executive Manager, the following motion was duly made, seconded and carried:

That the Executive Council unanimously disapproves the resolution in its present form and recommends to the Convention that the resolution be referred to the Resolutions Committee with the suggestion that interested parties appear before that Committee to express their ideas upon the subject matter of the resolution.

President Adams: You have heard the action and the recommendation of the Executive Council. What is your pleasure?

Preston B. Doty (First National Bank, Beaumont, Texas): Mr. President, I should like to move that the resolution of the Executive Committee of the State Bank Division be referred to the Resolutions Committee in accordance with the action of the Executive Council, and that the resolution presented to the Executive Manager be disapproved in its present form, that it be referred to the Resolutions Committee, and that all interested parties be, and they hereby are invited to appear before the Resolutions Committee to express their ideas upon the subject matter of that resolution.

The motion was duly seconded and carried.

Report of Committee on Resolutions, by Chairman A. L. Lathrop—Balanced Budget Urged—Elimination of Duplicate Taxation Recommended—Stand on Branch Banking

President Adams: We shall now hear the report of the Resolutions Committee. A. L. Lathrop of Los Angeles, Calif., is Chairman of that committee.

Mr. Lathrop: It has been customary, and I believe that the American people expect from the bankers of America, gathered together in their annual convention, some expression from them as business leaders in regard to business conditions. Therefore, I present for your consideration the following resolution, which was adopted by your Resolutions Committee, relating to business and banking:

Business and Banking

Business activity has been increasing in this country during recent months. There has been a vigorous increase in the volume of industrial production. For some months past the market prices of bonds and stocks have been moving upward. The flow of national income has notably advanced. The totals of new financing through capital issues of securities has grown larger. Along with these developments there has come a notable increase in the volume of employment. The amount of new building construction has been moving upward, and there has been an especially noteworthy advance in the growth and the wide distribution of new home building.

Bankers everywhere are particularly gratified not only at these signs of business recovery but at the fact that American banking has passed through the recent period of business depression with almost entire immunity from its hazards. Bank deposits have continued to increase, interest rates on loans to customers have remained steady and bank losses on loans have been few and unimportant. Banks have continued to serve their communities adequately in the difficult year that is drawing toward its close, and they are prepared to expand their services in the better one which we believe lies ahead.

Mr. Lathrop: So much for business and banking. The subject of research was continued by your Resolutions Committee and in regard to that subject they offer this to the convention:

Research

We approve the work of this Association in the field of banking research and recommend that these activities be continued. We also heartily recommend the continuing development of the Graduate School of Banking. These undertakings are disclosing facts and principles which are being evaluated, interpreted and translated into policies and action by American bankers with beneficial results that will continue to grow through the years.

Mr. Lathrop: During the last year certain activities have been undertaken and developed by the very splendid administration which is closing, in the form of banking conferences with the public. Our great President had thought that bankers ought to take the public into their confidence in respect to the business, the policies and the principles of banking, and your Resolutions Committee has seen fit to cover that subject with the following resolution:

Banking Conferences with the Public

We believe that the meetings between bankers and the general public inaugurated under the auspices of this Association during the past year were productive of great good in the field of public relations, and we recommend that they be continued. Much benefit will accrue to the national economy in general as the public's understanding of banking is enhanced and gradually increased through such means.

Mr. Lathrop: Another resolution which your committee had the honor to propose relates to the subject of loans by banks:

Loans by Banks

American bankers have never before had such large volumes of funds available for lending as they have now, and they have never before been more eager to make loans. They are serving their customers and communities with increasing flexibility and effectiveness and stand ready to continue to do so in this period of business expansion. As these trends and conditions develop there will be progressively diminishing justification for the extension of loans by governmental agencies.

Mr. Lathrop: In respect to the question of the chartering of banks, your committee has this to offer to the convention:

Chartering of Banks

We repeat the conviction expressed in each of the several conventions of this Association during recent years, that the number of banks chartered should be rigidly limited to economic requirements of their communities. We renew our pledge to bank supervisory authorities, both State and national, to support them in efforts to resist political and other pressure for the granting of charters not dictated by reasonable economic necessity.

Mr. Lathrop: We have touched upon the important subject of governmental expenditures and a balanced budget, and in regard to that topic we say this:

Governmental Expenditures and a Balanced Budget

We reiterate the position of this Association that a return to a balanced budget should be the prime objective of a sound public fiscal policy. This applies to national, State and municipal governments.

Mr. Lathrop: About taxation we have this to offer:

Taxation

It is of vital importance that taxes shall not be punitive, discriminatory or confiscatory and that they shall be so devised and administered that they may be taken out of the national income with the smallest possible injury to the sources of that income. Therefore, we reiterate the recommendation that overlapping and duplicate taxation by local, State and Federal governments be eliminated, and that the administration of the several taxing laws be so standardized that taxpayers may know their tax liabilities with a reasonable degree of certainty.

Mr. Lathrop: In respect to the types of banking to be conducted within these United States of America, you will recall that at the opening session of this convention on Tuesday [Nov. 15] a certain resolution was properly and legally introduced under the by-laws of our Association, and that that resolution, by action of this convention, was referred to your Resolutions Committee. At the same time, a suggested

form of resolution was presented, coming out of the State Bank Division. May I say that your committee has adopted and now presents through me to the convention the resolution of the State Bank Division, which reads as follows:

Branch Banking

We emphatically reaffirm the action of the convention held at Boston in 1937, wherein the position of the Association was stated with regard to the dual system of banking, branch banking and the autonomy of the laws of the separate States with respect to banking and definitely opposing any proposal or device looking to the establishment of branch banking privileges across State lines, directly or indirectly. We reaffirm the statement presented in the preamble to the Boston resolution, that this declaration is binding on all Divisions, Committees and Commissions of the American Bankers Association.

Mr. Lathrop: In acknowledgment and appreciation of the work of our President and others, your committee has this to say:

Acknowledgments and Appreciation

We thank Orval Adams for the forthright administration he has given the affairs of this Association as its President. He has been a courageous leader. In retiring from his high office he carries with him the thanks and admiration and respect of the whole fraternity of the bankers of America.

To Harold Stonier, Executive Manager, we pay our respects. His fine qualities of mind and heart make him a fitting official representative of American banking.

The press has presented the proceedings and deliberations of this convention with clarity, fairness and understanding. We express deep appreciation of the work so capably done by representatives of the newspapers in giving so intelligently to their world audience the reports of this convention.

To our friends, the Houston bankers, we express our heartfelt appreciation. They have made us comfortable and happy and their many courtesies will long remain in our memories. Particularly do we thank the members of the Houston committees who labored unceasingly in preparing for us so fully and so generously.

Resolutions Committee

A. L. Lathrop, Chairman, Vice-President Union Bank & Trust Co., Los Angeles, Calif.
Leonard P. Ayres, Vice-President Cleveland Trust Co., Cleveland, Ohio.
C. W. Beerbower, Secretary Virginia Bankers Association, First National Exchange Bank, Roanoke, Va.
F. L. Carson, President First National Bank in Wichita, Wichita, Kan.
H. M. Chamberlain, Vice-President Walker Bank & Trust Co., Salt Lake City, Utah.
S. Sloan Colt, President Bankers Trust Co., New York, N. Y.
H. E. Cook, President Second National Bank, Bucyrus, Ohio.
P. B. Doty, President First National Bank, Beaumont, Texas.
E. B. Ebersole, President Iowa Bankers Association, Cashier State Central Savings Bank, Keokuk, Iowa.
Gurden Edwards, Secretary, 22 East 40th Street, New York, N. Y.
William S. Elliott, President Bank of Canton, Canton, Ga.
Carl W. Fenninger, Vice-President Provident Trust Co., Philadelphia, Pa.
H. H. Griswold, President First National Bank & Trust Co., Elmira, N. Y.
Rudolph S. Hecht, Chairman of Board Hibernia National Bank, New Orleans, La.
W. L. Hemingway, President Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.
Fred I. Kent, Room 1507, 100 Broadway, New York, N. Y.
H. W. Koeneke, President The Security Bank of Ponca City, Ponca City, Okla.
Robert H. Myers, Vice-President Merchants National Bank, Muncie, Ind.
S. N. Pickard, President The National Manufacturers Bank, Neenah, Wis.
J. DeF. Richards, President National Boulevard Bank, Chicago, Ill.
Harry R. Smith, Assistant Vice-President Bank of America N. T. & S. A., San Francisco, Calif.
Charles E. Spencer, Jr., Vice-President First National Bank, Boston, Mass.
Samuel C. Waugh, Executive Vice-President and Trust Officer, First Trust Co., Lincoln, Neb.
A. L. M. Wiggins, President Bank of Hartsville, Hartsville, S. C.
P. R. Williams, Vice-President Bank of America N. T. & S. A., Los Angeles, Calif.
Charles F. Zimmerman, President First National Bank, Huntingdon, Pa.

[A motion to adopt the resolutions was seconded and carried and the resolutions were accordingly adopted.]

Amendment to Constitution to Provide for Election by Executive Council of Executive Manager and Treasurer

President Adams: There is one matter which has been approved by the Executive Council in Biloxi which requires the attention of the convention.

As you know, Dr. Stonier was elected Executive Manager at Boston last October. Your officers felt that it would be for the best interests of the Association to engage the services of the present Executive Manager on a contractual basis. Accordingly, the Administrative Committee adopted a resolution, engaging Harold Stonier as Executive Manager for the term of five years, beginning Sept. 1, 1938. That resolution was approved by the Executive Council at Biloxi. Upon examining the Constitution it was felt that there was some doubt as to the authority of the Executive Council to enter into this contract.

The Constitution provides that at each annual organization meeting of the Council, an Executive Manager and a Treasurer should be elected. To give the Executive Council the authority to enter into a contract for the services of the Executive Manager, a sentence is added which reads:

"The Executive Council shall fix the term and conditions of the services of the Executive Manager."

The proposed amendment has been approved by the Administrative Committee and the Executive Council. It was printed in the July number of "Banking," as required by the Constitution, and will now be presented for your approval by the Secretary of the Association, Mr. Hill.

Secretary Hill: The proposal is to amend the first two sentences of Section 8, Article VII of the Constitution. These sentences now read:

The Executive Council at the meeting for organization provided for in Section 7 of this Article shall elect an Executive Manager, and a Treasurer, who shall be coordinate officers. The Executive Council shall, by bylaw, provide the functions and duties of these officers.

The sentences are amended to read as follows:

The Executive Council shall elect an Executive Manager, and a Treasurer, who shall be coordinate officers. The Executive Council shall, by bylaw, provide the functions and duties of these officers. The Executive Council shall fix the term and conditions of the services of the Executive Manager.

President Adams: You have heard the question submitting the amendment to the Constitution. What is your pleasure? [It was moved and seconded that the amendment be approved, and the motion was accordingly carried.]

Report of Committee on Nominations—Newly Elected Officers

Mr. Adams: We shall now have the report of the Nominating Committee. W. C. Bowman, President of the First National Bank of Montgomery, Ala., Chairman of that committee, will make the report.

Mr. Bowman: It is a privilege as Chairman of the Nominating Committee to submit the names of those recommended to you. The report is as follows:

A regularly called meeting of the Nominating Committee was held in the Rice Hotel on Tuesday, Nov. 15, 1938. The recommendations of this committee are as follows:

For President—Philip A. Benson, President Dime Savings Bank of Brooklyn, Brooklyn, N. Y.
For First Vice-President—Robert M. Hanes, President Wachovia Bank & Trust Co., Winston-Salem, N. C.
For Second Vice-President—P. D. Houston, Chairman of the Board, American National Bank, Nashville, Tenn.

Respectfully submitted,
W. C. BOWMAN, Chairman.
FRED A. IRISH, Secretary.

President Adams: Perhaps the best method to adopt in connection with this report is to receive it and then proceed with the election of officers. A motion to that effect is in order.

William J. Waller: Mr. President, I move that the report of the Nominating Committee be received. [The motion was duly seconded.]

President Adams: It has been regularly moved and seconded that the report of the Nominating Committee be received. Are there any questions? If not, all those in favor of the motion please say "Aye"; those opposed, "No." The motion is carried and the report is received. We will now proceed to the election.

Philip A. Benson, President of the Dime Savings Bank of Brooklyn, N. Y., has been nominated for President of the American Bankers Association for the ensuing year. Are there any other nominations?

F. F. Brooks: I move that the nominations for President be closed and that the Secretary be authorized to cast a single ballot of this Association for Mr. Benson as President of the Association for the ensuing year. [The motion was regularly seconded.]

President Adams: You have heard the motion, which has been duly seconded, that the Secretary cast one ballot bearing the name of Philip A. Benson as President of the A. B. A. for the ensuing year. Are you ready for the question? All those in favor of the motion please say "Aye"; those opposed, "No." The motion is carried. I declare Mr. Benson elected to the office of President of the A. B. A. for the ensuing year.

Robert H. Hanes, President of the Wachovia Bank & Trust Co. of Winston-Salem, N. C., has been nominated for First Vice-President of the A. B. A. for the ensuing year. Are there any other nominations?

C. F. Zimmerman: Mr. President, I move that the nominations for First Vice-President be closed and that the Secretary be instructed to cast one ballot for Mr. Hanes as First Vice-President for the ensuing year. [The motion was duly seconded.]

President Adams: It has been regularly moved and seconded that the Secretary cast one ballot bearing the name of Robert M. Hanes as First Vice-President. Are you ready for the question? All those in favor say "Aye"; contrary, "No." The motion is carried. I declare Mr. Hanes elected to the office of First Vice-President of the A. B. A. for the coming year.

P. D. Houston, Chairman of the Board of the American National Bank, Nashville, Tenn., has been nominated for Second Vice-President of the A. B. A. for the ensuing year. Are there any other nominations?

J. Laird Dean: Mr. President, I move that nominations for Second Vice-President be closed and that the Secretary be instructed to cast the unanimous ballot of the Convention for Mr. Houston for Second Vice-President for the ensuing year. [The motion was duly seconded.]

President Adams: It has been regularly moved and seconded that the Secretary cast one ballot bearing the name of P. D. Houston as Second Vice-President of the A. B. A. Are you ready for the question? All those in favor of the motion please say "Aye"; those opposed, "No." The motion is carried. I declare Mr. Houston elected to the office of Second Vice-President of the A. B. A. for the coming year.

[The officers were thereupon installed.]

NATIONAL BANK DIVISION

AMERICAN BANKERS ASSOCIATION

Sixteenth Annual Meeting, Held at Houston, Texas, Nov. 14, 1938

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Bank Taxation

By J. N. QUINN, Cashier First National Bank of Hugo, Hugo, Colo.

I accepted an invitation extended to me by Russell G. Smith, President of our National Bank Division, to talk to you about "Bank Taxation," not because of any idea that I could produce an "oratorical gem," but because I compiled considerable data on "Bank Taxation" which, when presented before Clearing House Associations in Colorado, some two years ago, appeared to be of considerable interest and, what is more the point, produced results. I have a feeling that comparisons which I will make will likewise be of interest to many of you.

Costs have always been a matter of interest to me, and I read practically everything which comes to my desk which relates to costs—including every issue of the Borroughs Clearing House ever published. It is this turn of mind for studying costs which probably started me to compiling data on bank taxation methods.

One day in 1936, Claude L. Stout, then President of the Colorado Bankers Association, and I were visiting, and I brought to his attention varied data concerning the inequalities in bank taxation. And I suggested to him that our problem of bank taxation could well be something for the Colorado Bankers Association to study and correct. Banks in Colorado were then taxed on 75% of their capital, surplus, profits and reserves, at the prevailing ad valorem rate of a given community.

The result of this conversation was that the Colorado Bankers Association inaugurated an energetic and thorough program for revision. During our Legislative Session in 1937 our bank taxation base was changed from the ad valorem basis to that of a tax "measured by income" and at 6% on earnings—earnings to include interest on Governments and municipals.

At the same time we solved the difficult problem of taxation on intangibles. Our State law had always been full ad valorem taxation on intangibles, but it had never been enforced excepting in Denver, where a large company with, say $1,000,000,000 average balance, was taxed about $35,000—an intolerable situation which drove millions from the State.

We now have a novel tax on intangibles—a tax of 2% on the income derived therefrom and equivalent to about a one mill tax on the intangible itself.

You are all aware that competition is increasingly keen and of the many new lending agencies competing with you.

While I realize that there was a decided lack of confidence on the part of both bankers and their customers at about the time of the moratorium, and a fear of an economic breakdown, and while I am satisfied that the Regional Agricultural Credit Corporation "set-up" was a necessary and stabilizing innovation, I have never been convinced that the production credit associations were either necessary or desirable. It is difficult to see the advisability of the Government coming in to compete with banks with permanent institutions which pay no taxes. It strikes me just as logical to set up competition for all lines of business, and to have all this competition tax free.

I once analyzed the statement of a certain production credit association, as of Dec. 31, 1936, and I found the credit side of this statement to be:

Non-voting class A stock	$300,000.00
Voting class B stock owned by members	84,510.00
Earnings to Dec. 31, 1936	85,886.69
	$470,396.69
Deducting that part of 1936 earnings earned after tax day, April 1, 1936	28,037.00
The remainder, or	$442,359.59

would have been subject to ad valorem taxation, if this institution had been a bank in Hugo, Colo., in 1936. And I figured out the tax to be $15,231.54 and the Federal income tax, on taxable earnings, to be $3,924.49—a grand aggregate of $19,156.03 if such an institution had to pay any taxes. They do not. With loans of $1,220,000 odd, this institution had close to a 2% interest rate differential over our bank on taxation alone.

We have feed loans, seed loans, rehabilitation loans, Federal bank loans, Commissioner's loans, and what-not for competition. Admitting that many of these loans are not desirable, still the majority of them used to fit into the usual loan schedule of most banks. The loss of a few loans may not be material to many of you, but it is to us, and it would be to you if you were operating a small bank not far removed from the dust-bowl area, where we have not had a good crop since 1930—eight straight failures—and where our grass situation has been such in most parts of our territory that we could not develop loans like we used to do.

All of the Government lending agencies grant the same interest rate in one State as in another, regardless of the fact that the hazards of banking are in no way comparable. The return on bonds does not vary much from State to State. Deposit insurance costs are the same one place as in another. The tendency of the times is to equalize interest rates nationally. If, as I am convinced, the interest returns will remain low for some time, and if this equalization of interest rates is to continue, it becomes increasingly important that we equalize expenses. Otherwise banks handicapped by excessive taxation, or otherwise, cannot compete with banks in more favored localities.

I want you now to carefully consider with me a fictitious "National" bank with a capital of $50,000 and a surplus of $50,000, with no undivided profits or reserves, and with no real estate. Real estate taxation is so varied in the different States, and in different cities within such States, that I prefer to disregard it entirely. We will not consider "preferred" stock. When it is necessary to assume earnings, we will assume them at 6% on the capital structure—or $6,000. In the few cases where deposits need be assumed, they will be at a ratio of eight to one, or $800,000.

We will take this bank with its $50,000 capital and $50,000 surplus, and in fancy we will place it on wheels and move it from place to place, and tax it:

Alabama banks have a 6% excise tax on earnings and to include earnings of Governments and municipals. Our tax is	$ 360.00
Arizona, at Phoenix: city, 60%@32 mills; State-county, 40%@ 14.7 mills. The tax is	4,543.00
Arkansas, at Little Rock: statutory, 50% of "capital structure"—customary is equalization to 25%—rate 40 mills. Tax	1,000.00
California has a complicated tax law, with the maximum 8% on earnings. Will assume the "maximum" and have	480.00
Colorado, in Hugo: previous to the change—$3,443.25; now 6% on earnings	360.00
Connecticut, 2% on earnings, a tax of	120.00
Delaware banks pay 1/5 of 1% on "true value of bank stock." The tax	200.00
Florida banks have a 2 mill levy on "invested funds," or	200.00
Georgia banks have the ad valorem base on 100% of investment. Customary rate, 60% to 70%. Apply the approximate 30 mills at Atlanta to 70% of valuation, the tax will be	2,100.00
Idaho banks are taxed at 1% on the first $1,000 of income; 2% on the next $1,000, &c., up to 6% on all over $5,000. Deduction allowed for income on Governments. The tax will be a "miximum" of	210.00
Illinois, in Chicago: We take capital, surplus and profits, deduct 40% for quick realization of assets, and equalize the remainder @37%. Applying the Chicago rate of 87.3 mills, we arrive at a tax of	1,938.06
Indiana banks pay ¼ of 1% on investment and deposits, with certain kinds of deposits and float deducted. Apply in Indianapolis, with pro-rata deductions, the tax is	2,012.50
Iowa banks have a rate of 6 mills, which develops a tax of	600.00
Kansas banks are taxed @5 mills. The tax	500.00
Kentucky, in Louisville: Banks are taxed at 13 mills, or	1,300.00
Louisiana, in New Orleans: Louisiana has a new law, passed in May, 1938, fixing the taxable basis at par value of stock, plus the amount by which surplus and profits exceeds the par value. For city purposes we tax 85% of $50,000@28.5 mills, and for State purposes, 100% of $50,000@10¼ mills. The tax figure	1,723.75
Maine banks have a rate of 15 mills, and the tax will be	1,500.00
Maryland, in Baltimore: Assess at "true value." Apply rates of .2301 per $100 for State and $1.00 per $100 for city and county. The tax	1,230.00
Massachusetts: National banks are assessed at 6% on earnings to include earnings of Governments and municipals. The tax	360.00
Michigan, in Detroit: Ad valorem base, deduction allowed for tax-free securities in the ratio of invested capital, to deposits and invested capital. Apply to an assumed $92,295.55 the rate of 32.22201 mills. The tax will figure	2,973.77
Minnesota, in Minneapolis: Tax 22% of capital funds at the mill levy of 100.25 mills	2,205.50
Mississippi, in Jackson: Ad valorem base. The rate, 45 mills. Since 1934 banks are exempt on "earned surplus" up to the amount of capital. If some of our surplus had been earned since 1934 the tax would be lessened to that extent. The tax	4,500.00
Missouri, in Kansas City: Tax approximately 60% and @37.7 mills	2,262.00
Montana, in Helena: Tax 30% of capital structure @92.85 mills. Tax	2,785.50
Nebraska banks are taxed at 8 mills, a tax of	800.00
Nevada, in Reno: Ad valorem tax on "full cash value." The 1938 levy is 42.5 mills, and the tax is	4,250.00
New Hampshire banks have a tax of 1% on the "par value." The tax	500.00
New Jersey, in Trenton: Banks are subject to a tax known as "capital stock tax," and the rate is ¾ of 1%. The tax is	750.00
New Mexico, in Albuquerque: Banks can deduct surplus and profits up to an amount not to exceed 50% of the capital. The tax is on $75,000@41.146 mills	3,085.95
New York: National banks have a tax "measured by net income," interest on Governments and municipals included. The rate is 4½%. The tax will figure	270.00
North Carolina, in Winston-Salem: Ad valorem base-rate 21.5 mills. (Tax-free holdings could perhaps cut this up to one-half.) The tax will figure	2,150.00
North Dakota, in Bismarck: Surplus up to the amount of capital is not taxed. 50% of the capital is taxed at ad valorem rate of 63.2 mills and the tax is	1,580.00
Ohio banks are taxed at 2 mills on combined "invested capital and deposits," with deposits of varied kinds exempt. Approximate tax will be	1,400.00
Oklahoma banks are taxed at 6% on income, including income on Governments and municipals. The tax	360.00
Oregon banks are taxed at 8% on income. The tax will be	480.00
Pennsylvania banks have an 8 mill levy. The tax will be	800.00
Rhode Island banks are taxed at 40c. on each $100 of savings deposits. We will assume $200,000 and get (and this can well be more than double)	800.00
South Carolina banks are taxed on 42% of "true value." We will assume a 4% rate and develop	1,680.00
South Dakota: The tax is at a 4 mill rate, and the tax is	400.00
Tennessee, in Nashville: Assess $99,000; the rate 30.3 mills. The tax is	2,999.70
Texas, in Houston: Assess 60%, or $60,000 for city @ 32 mills; 40%, or $40,000 for State-county, 14.7 mills. Tax is	2,508.00
Utah banks are assessed at 3% on earnings and not to include earnings on State of Utah bonds or Governments. "Maximum" tax	180.00
Vermont: The tax is on savings deposits and the rate is .005. Earnings, when distributed to stockholders, is taxable under the State income tax. The tax, it would seem, would approximate (I believe this to be double taxation, in violation of Section 5219 of the National Bank Act)	2,000.00
Virginia banks are taxed at $1.00 for each $100 of value. Tax is	1,000,00
Washington: In Washington there is no tax of any kind on banks, excepting the tax on what real estate they may own. The tax is	None
West Virginia, at Charleston: The tax is under the "intangible tax." The rate is 52 86/100c. per $100, and the tax will figure	528.60
Wisconsin banks are taxed under an income tax and at 2% on first $1,000; 2½% next $1,000; 3% next; 3½% next; 4% next; 5% next; 6% all over $6,000, with a small "surcharge for "Teachers Ret." Total	220.83
Wyoming banks are taxed on their capital, and not on surplus or on earnings. In Cheyenne the rate is 40 mills. The tax is	2,000.00
District of Columbia, in Washington: National banks are taxed at 6% on "gross earnings." The approximate tax will be	1,005.00

State banks have additional taxes in several of the States: for instance, in Missouri, a franchise tax of 50c. per $1,000 ($50.00), and 2% on earnings.

Equalization deductions procured by banks in different counties of the same State are not uniform, and with the same "set-up" in the same State, some banks pay considerably less than others.

It is noted that a bank in Arizona pays taxes of $4,543 and a bank in Utah pays $180 "maximum." One tax is over 25 times the other, and these are adjoining and competing States. And several States in the higher brackets have taxes from 10 to 20 times those in the lower brackets. This should be a matter of interest to even those bankers who enjoy a favorable "set-up," because deposit insurance makes every bank concerned in the affairs of all banks. A correction is indicated. The ad valorem base for taxing money, or bank capital, never was right, and its passing should be accelerated. The bankers in those States which still "enjoy" it should organize an energetic campaign for modernization.

A few suggestions for such a program may prove helpful. Select some banker who has personality and who is a frank and convincing speaker, preferably not from one of your larger centers. Sell the idea to your Clearing House Associations. If you are not well organized into country Clearing House Associations, this program can serve a double purpose. You will find that your bankers, especially those in your country districts, will work with you energetically and effectively. You will work out the way to contact your legislators.

Tell your legislators something about banking: that to remove the banks from a given county would devalue the land a minimum of $1.00 an acre, and get this into a dollar aggregate. Tell them that in the eyes of those who levy taxes the bank should be Business No. 1, which they should protect at all times from exorbitant or destructive taxation, because the banks are the custodians of the future taxes which shall be colleced on behalf of the school districts, cities, counties and the State. Unless banks are protected to the extent that they will be profitable constantly, the steady flow of taxes into the collective agencies will be seriously interrupted if not materially depleted. Banks must be encouraged to build surpluses and reserve structures because the depositor derives his main protection therefrom, and when you protect the depositor you protect the funds with which he intends to pay his present and future taxes.

Tell them something of costs as compared to 20 years ago, or so. Compare examination costs, bond costs, and such items. Tell of innovations like deposit insurance and capital stock taxes. Illustrate these things with definite figures, like, for instance, the ad valorem rate in Hugo was 19.95 mills in 1920 and now it is 45.91 mills. Nothing has occurred which will enable your bank, or ours, to pay over twice the taxes which we used to pay. Quite the contrary.

Tell them that banks are operating in an era of very low interest returns and with considerable idle money. Tell them of your "tax-free" competition.

Admit that banking has not given an entirely good account of itself since 1920—that out of the 30,078 banks in active operation on Dec. 31, 1920, only 12,400 survived the "moratorium," and that approximately 6,400 of the survivors had to replenish their capital with borrowings from the Reconstruction Finance Corporation. Only about 20% of the banks came on through without something happening to them. Ask them if they are not convinced that there must have been underlying factors contributing to such a tremendous number of failures, other than the poor loans and investments made by those unfortunate bankers who, for the most part, were trained in making loans and investments. Tell them of the many banks which paid a high ad valorem tax on capital, surplus and profits which

did not exist at all, excepting as a book figure, during certain periods of stress.

Tell them something about bankers—their training, which does not produce optimists, or lobbyists. They have not known how to get protective legislation. Tell them of individual bankers and of their life-time of service; bankers who times without number have re-started customers with a new "line-up" after drought or some such happening had caused insolvency; bankers, many of whom were born on farms and who have a sympathetic understanding of the hazards of farming and stock raising, as well as an understanding of human nature in general; bankers who will disregard mistakes, or a series of mistakes, and still accord a customer further consideration and helpful assistance.

Remind your legislators, and yourselves, that the devaluation of the dollar by 40% is a fact and not a theory, and that the resulting increase in prices will be gradually felt until all commodities tend to equalize at about 40% over whatever would have been normal had there been no devaluation. This means that in terms of purchasing power the capital, surplus and profits of your bank, and of ours, need be 40% higher than it used to be in order to remain even.

Emphasize the fact that additional profit is not a main objective, excepting, perhaps, as it applies to those banks which should have it; that what you want is to be able to accord to industry the same advantages that can be had elsewhere, and thus assist in the creation of new wealth, and with the building up of your State; and that aggregate taxes, under your program, will increase rather than decrease.

In concluding I want to say to you that, to me, there is both romance and tragedy interwoven in taxation. I recall that when I went with the United States National Bank in Denver, 33 years ago, there was a very strong bank in Leadville; 1907 started a long period of decline in the mining industry, but even 10 years ago the deposits were $1,700,000.

With a large percentage of the buildings vacated through the years, and left to decay, the mill levy went up and up, and the bank liquidated some several years ago.

Leadville is a county seat and the population is about 4,000. Such places should be served, and by banks—not by credit unions, or any other types of "mushroom growth."

And it may well be the business of both you and me to see that this is brought about.

Your Job and Mine in Public Relations

By DUNLAP C. CLARK, President the American National Bank of Kalamazoo, Mich.

It was with both pleasure and hesitance that I accepted President Smith's invitation to discuss before this meeting an important phase of banking under the title "Your Job and Mine in Public Relations." It is naturally flattering that the progress of our bank in five short years should be felt to justify presentation of those practices contributing to our growth; but it would be presumptive for a country banker to preach policies to those directing considerably larger and older institutions. Therefore, and since everyone likes to talk about his own business, I shall reverse the emphasis of the title, discussing my job rather than yours.

The American National Bank of Kalamazoo opened for business Nov. 1, 1933. An independent bank, we started from "scratch" without deposits or earning assets, having assumed neither from a predecessor. From our inception it has been our premise that there is too much mystery in the banking business, too much aloofness on the part of bankers, seemingly a generally admitted fact. But we capitalized definitely on it and have consistently tried to make the public understand that it is entitled to information concerning our condition and operations as complete as we demand from our borrowers. That we are succeeding is perhaps best indicated by a growth from nothing to total resources which have passed 6½ million dollars within five years.

The amount of attention accorded public relations the past few years at bankers' meetings and in financial publications confirms its recognized importance, as does particularly President Smith's desire for its consideration here, outside the Customer Relations Conference to be held tomorrow evening.

The approach to the subject in most instances, however, seems to reflect a misconception. Public relations has been regarded as a specialized field, and its activities considered as an adjunct to desirable banking practice, much like a new model "trailer" to be hitched on the back of a vehicle. Actually, on the other hand, it is as integral a part of a well-managed bank as is the very motor or transmission in an automobile.

It would not be an exaggeration to say that a sound public relations policy is sound bank management. The two are inseparable. Institutions which grew and prospered in by-gone years, before we became "public relations" conscious, and served their communities ably, were blessed with managements which followed such policies intelligently, perhaps without realizing them, or at least without defining them in modern terminology.

The elements have always been present in progressive banks. They have through recent study been discovered rather than invented, and through analysis have been brought prominently to our attention.

In common with other businesses, banking has been made the target of attacks and criticism. Unlike many others, however, banking of necessity comes into intimate contact with almost everyone, large or small, in every community of consequence.

It is a direct retail business, dependent for its existence upon the goodwill of its public. Confidence is the essential element. Confidence is based upon understanding. We bankers, therefore, have a definite "selling" job—to create that understanding of mutual problems—what a bank owes its community, and what, in turn, the community owes its bank. And let us not forget that the banking holiday is not yet six years behind us, leaving special prejudices which augment your problem and mine.

In analyzing my job, then, it seemed naturally to fall into two separate but interdependent parts—public relations inside the bank and public relations outside the bank. The former refers to the education of the staff itself, and the latter to contact with the public at large, both customers and non-customers.

Like charity, good public relations begin at home. It is the province of the staff to provide the service upon which the bank prides itself. The brunt of daily customer contact, at least 90%, falls upon the operating group, particularly the tellers. As their knowledge of the bank's policies and condition is essential, proper personnel training is of prime importance.

At our weekly meetings of employees their responsibility to the bank is stressed. Each is made to realize that among his friends he is the bank—that impressions of the institution depend largely upon the public's judgment of him. Further, each must be sufficiently familiar with general policies and practices of the bank to respond intelligently to such inquiries on the subject as may arise during his social contacts as well as in the office. Merely to say he does not know is insufficient—he must know.

Research is said to prove that a bank must be rebuilt about every 15 years; that the usual mortality in this period among business concerns and individuals requires their replacement by new customers for a bank merely to "hold its own." And in those companies which continue to operate, the turn-over of active officials themselves may result in a loss or division of the accounts unless the successors are tied in.

Further, there is the progression within the bank itself. Present officers retire or otherwise pass from the picture, so that new official contacts must be made by those growing up within the institution. It is this last thought that presents the real challenge to the staff—which of them, through cultivation of business now on the books will be the officers handling the important accounts 15 years hence?

Definite time for meetings has been found essential, lest they be side-tracked by the press of the immediate appearing momentarily of greater importance. Affairs of the bank are discussed more intimately with our staff than even with the "official family" in many institutions. Errors as well as achievements are talked over for general benefit. All are encouraged to present their own views, and I believe it would be difficult to find a more hormonious group of 31 than ours. The A. B. A. booklet, "Customer Relations," has proven invaluable in our training course.

A loyal staff, institutionally well grounded, than, is the first step in the formulation of a public relations program.

Public relations outside the bank, which follows, may be divided into personal contact work and general publicity.

In considering the personal contact angle, the most important phase is likely to be overlooked, probably because, being so routine, it is taken for granted; that is, the reception accorded customers in the bank, and the atmosphere of the institution. Personal calls on clients in their offices are distinctly valuable, and we have capitalized on them. But only a few can be made in a day compared to the number of visitors who are cared for in the bank.

The friendly mien and sincerely cordial greeting should be too obviously desirable for comment, but at how many desks presides "The Great Stone Face"? After all, no one has to do business with a certain bank. His patronage should be as obviously appreciated as it is in the drug or grocery store. And at the other extreme, equally to be decried is the surface over-cordiality sometimes affected, which because of its patent insincerity may cause the opposite reaction to that anticipated.

Banking publications frequently carry advice to tellers regarding their customer contacts, but to my observation, perhaps because of these comments, tellers are usually less to be criticized on that score than the officers. Let us, therefore, consider ourselves—the executive personnel—who compose this meeting.

Officers' availability to customers is an important feature, especially in smaller centers, where the public is accustomed to see the owners or managers of mercantile establishments which they patronise. In our bank we eliminated the use of the private offices in the quarters we took over, employing them merely as conference rooms. All the officers are seated upon the open platform, easily accessible. This policy, new in Kalamazoo, evoked favorable comment.

Officers' meetings are held and correspondence handled before banking hours, placing the officials "on the firing line" when the public is admitted. They are cautioned to avoid as far as possible long telephone conversations when customers are at their desks, and to cultivate facility in completing transactions, to minimize waiting by other clients. They are expected to arrange interviews regarding personal affairs on their own time, so that the bank's business may have their undivided attention during the regular hours.

In all our customer contacts the institutional rather than the personal relationship is stressed. Those opening new accounts are introduced to all the officers and those tellers who will serve them. The all-too-frequently used first person singular pronoun is discouraged, and our friends feel free to consult with any officer, knowing that none considers their accounts his "personal property."

Of course these are just common sense points, but perhaps worthy of review, for, after all, it is your job and mine to set the tone of our institutions. Example is stronger than precept to our employees.

Nor is the customer always right. We know that a bank "run by its customers," as we used to say, is doomed to difficulty. There are certain standards to which sound banks must adhere in matters of loaning policy and reasonable compensation for services rendered. It is these differences of opinion which present the real challenge in customer relations. You and I must persuade our public to do things in our way and "make them like it." That is salesmanship with a capital "S." The idea that a good credit man must be "hard-boiled" and perhaps even dis-

courteous in his treatment of clients is a relic of by-gone days. It reflects lack of proper training in his early banking career. It is easy to refuse a loan or make a service charge "stick," but to maintain goodwill at the same time requires an alert and objective attitude of mind.

And, above all, let us be honest with our customers. Instead of hiding behind a discount committee or worse yet, the bank examiner, in declining a loan, let us explain how it can properly be made, if possible, or if this cannot be done, show a fully sympathetic and constructive attitude. This should go far to refute much of the criticism against bankers, for we all know that never were banks more sincerely seeking sound outlets for their mounting funds. True, it takes time, but results have proven its desirability.

Reference was made to calls upon our customers, in which we are strong believers. Our officers, usually after banking hours, contact the officials of our larger accounts with fair frequency, and most of our other depositors at least once a year. In many cases, beside more closely cementing the relationships, these conversations develop attractive loans either at the time or subsequently.

Certainly, with the present dearth of desirable paper, this important angle cannot be overlooked. We have come to regard increasing loans as one of the major benefits of consistent public relations activities.

Our local loans rose $1,333,664, or 253%, in the 18 months from June, 1935, to December, 1936. No small part of this was directly traceable to our policy of keeping eyes and ears open and then soliciting the credits. Evidencing that this did not merely represent our share in a geenrally improved demand, it may be observed that we accounted for 70% of the total increase in bank loans in Kalamazoo in that period.

While business conditions in the subsequent 18 months, ending June 30, 1938, were not of course conducive to continued credit expansion at the same rate, our portion of the growth was gratifying, being $371,037 out of the city's total of $674,782, or 55%.

We found the practice of calling a real novelty in Kalamazoo, appreciated by customers and non-customers alike. When the initial inertia on the part of officers to get away from their desks is overcome, they have real satisfaction in seeing present balances increased, additional services employed, and new accounts opened.

Nor do we overlook the officials in the head offices of out-of-town concerns whose local branches deal with us. When in New York, Chicago or Detroit we find our visits welcomed. These men, like ourselves, want to know what "the other fellow looks like," and value a relationship based upon more than a routine of satisfactory service. Several have permitted us from time to time to carry our comparatively small legal limit of their paper, when ordinarily they have recourse only to their principal depositories in the centers.

Most of the smaller banks around Kalamazoo maintain accounts with us, and are visited with fair regularity, even though the executives are often in our bank.

From a new business angle, we follow closely usual available sources to learn of new companies or individuals entering Kalamazoo. The companies are promptly contacted locally and followed up at headquarters through our correspondents. Personal letters are written to those individuals who cannot conveniently be reached. As nearly as can be determined, we have received over 80% of the new incoming accounts since our organization. Further, our customers are found fertile sources of new business and, in the main, are glad to help us obtain accounts. It is estimated that some 90% of our new business has come through customers who, familiar with our condition and progress through our public relations policy, know that they can without reservation sponsor us.

Solicitation of business is more difficult than cultivation of present accounts. To the average banker his institution is well known and policies understood. He does not seem to realize that many otherwise intelligent business men have an inadequate conception of the banking facilities at their disposal.

Besides these individual visits, group contact work has been found beneficial—that is, addressing various local bodies on timely banking matters. The subject "How to Analyze a Bank Statement," presented in 40 minutes, using an enlarged exact reproduction of the latest called statement, has proven the most popular. It has been given countless times, on many occasions outside of Kalamazoo. This affords an unusual opportunity to explain banking policies and ordinarily provokes questions.

Our public discussions of Federal Housing loans have given us a preeminent lead in such financing in our city. According to official compilation by Federal Housing Administration headquarters, as of June 30, 1938, we had created 1,536 of the 2,495 Title I loans made by the four qualified banks in Kalamazoo—in amount approximately $436,000 out of $695,000. Under Title II we had made 60 out of 93 mortgages reported from Kalamazoo—$317,000 out of $470,000.

The booklets, "Principles of Commercial Banking" and "Putting Dollars in Overalls," published by the American Bankers Association, were ordered in quantities. Not only were they distributed to selected customers, but were sent to the high schools for use in economics classes.

In "General Publicity," advertisements in local newspapers might be briefly touched upon. Our advertisements run regularly each Sunday. The policy of "white space" is followed, with one thought tersely expressed, that "he who runs may read." From observation and inquiry, we feel that lengthy ads, overburdened with copy, are less effective.

While admittedly it is difficult to trace returns from advertising, voluntary comments make us feel that our presentations are read and some customers claim that they came to us because of the attitude reflected.

In the building lobby, just outside the entrance to the bank, a bulletin board in maintained into which is inserted weekly an informal letter, dealing with current topics of interest in the banking field. Illuminated from behind, the letter is easily read, and reaches those who come into the building, even though they do not enter the bank. This has been in use over four years, virtually without expense. The letters are often correlated with newspaper advertisements when featuring some special topic.

An important builder of goodwill have been displays by customers in our bank lobby. While the idea was not original with us, we have perhaps followed it more consistently than many institutions. The series has run over three years, with space available without charge. Interest is built up through news articles and sometimes advertising. While at first we found it necessary to solicit exhibits, we now have a long waiting list, with definite dates assigned three or more months ahead. We can directly trace two new commercial accounts to this service.

My job in a city of 60,000 obviously differs in details from yours. To be fully effective a public relations policy must be "tailor made" to meet the requirements of the individual locality. The general principles, however, which have been presented largely subjectively, should be applicable in a town of 5,000 or a Central Reserve City.

Most bankers agree to the desirability of such activities, but how many direct to them the necessary amount of thought and effort? We must be constantly on the job, with consistent consideration of the customer, personal contact and cultivation of friendships.

And perhaps, though we profess otherwise, we still have too deeply inculcated the old "pedestal complex," that business should come to us. We must realize that we are merchandisers of a commity—credit. As this commodity is an intangible, it is the most difficult type to sell. Our money is no better or more desirable than another bank's. We cannot compete on a quality basis, therefore, and should not, save perhaps in rare instances, attempt to do so on a price basis—that is, undercutting rates. We cannot build our banks by sitting serenely at our desks and hoping desirable business will seek admittance. We must keep up with the times.

It is our obligation to convince our friends that we want to deal with them frankly, that unless we understand them and they understand us, we cannot fill our proper place in the community. If they progress with us step by step during this period of increasing deposits and fair earnings, is it not likely that they will have greater confidence in us and will better appreciate our problems when conditions again reverse themselves—as they are bound to do? If banks generally would follow the practice, would it not go far to avert another banking holiday, which was precipitated by the public because of loss of confidence? Is this not the real objective of constructive customer relations—of sound bank management? Is this not your job and mine?

Pensions Preferred or the Degradation of the Franchise

By Dr. Paul F. Cadman, Consulting Economist, San Francisco, Calif.

In introducing Dr. Cadman President Smith of the Division said:

Dr. Cadman has conducted a lecture course on current economic events at the San Francisco Chapter of the American Institute of Banking. This course is largely attended by bank officers who look to Dr. Cadman year after year for an enlightening series of weekly commentaries on national and world affairs.

Dr. Cadman has had a very interesting career. He graduated from the University of California in 1915, where he received the degree of Bachelor of Arts and Letters and Science. He later served in the World War as a Captain of field artillery with the famous Second Division. He later returned to more scholarly pursuits, and he emerged from the University of Paris in 1922 with a Doctor's Degree in Economics.

Returning to California, Dr. Cadman became a member of the faculty of the University of California, serving six years in the Department of Economics, and part of this time as Dean of Men of the University.

Since 1929 Dr. Cadman has been, successively, Executive Secretary of the Stock Exchange, head of the Department of Cooperation, Finance and Investment of the University of California, and more recently—since 1936, in fact—he has been in private practice as a consultant economist.

Thus I have given you a thumbnail sketch of Dr. Paul F. Cadman, President of the American Research Foundation, who is going to speak to you on a subject in which I know you will have a great deal of interest—"Pensions Preferred."

Dr. Cadman presented his prepared address as follows:

Oratory is king; reason has been dethroned. All the designs and devices for persuading men with the spoken word which have been practiced for 40 centuries, are more widely employed today than ever before in human history. Under skillful operation the human voice alone can hypnotize or arouse; vast crowds are often swayed by little more than the rhythm, tone, and color of speech. We listen to orations which are utterly lacking in meaning; random ideas and phrases frequently unrelated and oftern presented in unfinished sentences. The desired effect can be created by gesture, intonation, and dramatic sincerity. But the most powerful appeal ever made to man, is the promise of *The Abundant Life*.

By whatever basis human desires are classified, the promise of an abundant life covers virtually all. To the spiritual it suggests escape from futility; to the sensuous it calls up visions of luxury; to the defeated it is a dream of success. To the idle it pledges ease; to the weary, rest; to the frightened it means safety; to the anxious, security; and to the improvident it conjures inexhaustible sources. Persuade a man that you can give him the thing he most desires and you will be his hero; offer him justification for his failures and he will be your disciple; assure him a boundless supply of "loaves and fishes" and he will seek to make you king.

But the unfortunate are not the only ones who are lured by the promise of the abundant life. The idea touches also the deep springs of generosity among the hosts of the successful. It is written that St. Paul, when passing a beggar in the street, turned to his companion and said: "But for the grace of God, there go I." Few of us are quite certain of success. We are more or less conscious that we had the "breaks"; that some special advantage covered our deficiencies and helped us over the hazards. The nation-wide response to the appeal for security and leisure for the aged and opportunity for youth does not come wholly from the unemployed. It also finds a sympathetic, if cautious, response in the great majority which is paying its own way. Nevertheless, this combination of protest on the part of the defeated and sympathy from the successful is a conjuncture which is fraught with grave dangers.

Democracy has come to the great crisis which Lord Macaulay predicted for it more than a century ago. A vast number of our citizens are now attempting to seize the security which they are persuaded is their due. By progressive perversion, the unfortunate have been led to a supreme folly which can end only in increased suffering. With a score of deceptions they have been persuaded that the practice of democracy guarantees them the right to vote themselves rich. No more subtle deceit has ever been sown in the hearts of men.

Eighteen States voted on some form of so-called pension distribution last Tuesday [Nov. 8]. What was perhaps the most radical of all, failed to pass in California by approximately 200,000 out of nearly 2,000,000 votes cast on the issue. By no means all who voted for "ham and eggs" were unemployed. Although the fact remains that payments under these plans cannot possibly be maintained, it is no longer sufficient to merely declare this truth. The contagion is spreading repidly and although it may die of its own poison like many other epidemics, it will leave a residue which may force a dangerous revision of the national Social Security Act to a point which will threaten the solvency of the Federal Government's entire program in behalf of the aged and the unemployed, who are the real victims of circumstance. The phrase "through no fault of their own" is used as a blanket to cover the worthy and the unworthy. Mention is rarely made of those who have come to their sad estate through no *other* fault than their

own. An ancient error now re-appears in full bloom in the phrase: "The world owes me a living." The Pension movement has bred a resentment which nurtures the falsehood that at birth every man becomes the natural heir of abundance.

But the poison of class conscious discontent has another deadly effect. The able and the employed have begun to push their undeniable responsibilities on to the Government. In what is truly tragic weakness men have thought that if the State would care for their fathers and mothers, yes, even for their children, they could save their earnings for their own enjoyment. Nor is this idle speculation, for we have all heard the argument expressed.

There must be full recognition that a certain fraction of our total population are the real victims of unemployment. Nor should there be any attempt to condone the errors which contributed to the breakdown of industry and trade. Perhaps the saddest mistake in a decade of inadequate politics is the failure to comprehend the real nature of unemployment. But neither of these facts justify the vicious attempt to divide our people into classes with the direct purpose of generating hate.

It is time now to apply something more than negative argument. In his heart of hearts, every thinking man knows that it is impossible to generate wealth merely by spending money. But the temporary success in the organization of discontent strengthens the illusion and deceives even "the very elect." We are distributing bounty through borrowed money; we are inflating both currency and credit. One State has all but voted a currency of its own despite the constitutional restriction. We now proceed from folly to folly on the perfectly patent fallacy that the distribution of money will generate wealth.

There now remains only one route to safety: the slow and difficult process of educating our people as to the sources, the nature and the extent of real wealth. In this duty we will be derided by the Utopians, belittled by the reformers, and reviled by the racketeers.

The sole source of wealth in the modern world is the creation of goods and services. When there is an abundant production of goods and services, we say that the national income is large and we express that income in terms of wages, salaries, interest, dividends and similar devices. We exchange goods and services with money, counters if you will, and the mere increase in the number of the counters or the increase in the number of times they are used, obviously contributes nothing to the sum total of wealth.

Education will cause our people to consider the present demands of the young and the old in these terms. Youth is now organized and encouraged to insist upon its share. State and National legislation has been designed to provide a money advance to youth, presumably to be expended in preparation for maturity. On the other hand is the growing demand of the aged, which classification is not limited to the infirm or the helpless, but is pushed back steadily toward 50 years, which age in a vigorous people was frequently considered "the prime of life." Between youth and age stand the productive class—those who must labor and save if real wealth is to be produced. As the demands of youth are pushed forward and the demands of age are pushed backward, the productive class tends to become smaller and the burden upon it, increasingly heavy.

But there are some who will say that the productive class may be relieved of its responsibility for both youth and age. Such a statement simply ignores the fundamental truth that the entire burden of caring for dependents of any and all classes, rests and can rest alone upon those who produce wealth. The man who has a job, whatever his age, wage or salary, the man who saves anything, be it little or be it a fortune, must carry the burden of all grants to those who do not work and have not saved. Governments do not produce wealth—they take a toll of that which is produced through the levy of taxes.

But education must show another thing. The champions of distribution in all its forms, may desire a new form of government and a new system of economics. When pressed hard by their exponents, certain pension advocates confess that it is their purpose to overthrow the free economy and to establish a collectivist State on either the socialist or communist pattern. But there is no guarantee that such a pattern of government or economics will provide security within the framework of human freedom. It is true that there is no unemployment in Russia and none in Germany, and very little in Italy; but it is also true that the ability of human beings to choose what they want to *do* and when and where and what they will *have* as a result of their efforts has been rigidly and systematically curtailed. A very large number of the American citizens who have been deluded by the siren promises of the pension mongers will reject the collectivist State when they see it emerging through the process of distributing purchasing power.

Before mentioning what may be the final task of education, some thought should be given to the rather systematic neglect with which American business has treated public opinion. The custodians and managers of capital have been conspicuously absent in most of the places where public opinion is formed. They have allowed a protest to develop without an answer. They have been indifferent to the fact that the church, the school, the fraternity and nearly all other social agencies have turned attentive ears to the champions of "Wealth Without Effort or Saving." They have neglected the conclaves of the idealists where men and women are diligently seeking peace and security. They have allowed the theorist and the dreamer to corner all of the longing of the human heart for a better life. Peace, progress, order, humanity, liberality, and generosity are concepts which have been appropriated in a considerable degree by those who are the least capable of delivering them.

We come then to what may be the most critical task for economic education to perform in this unhappy period. Those who produce and save must be recognized as the real champions of welfare. Willing and skillful labor, conscientious and devoted management, and systematic saving are beyond doubt the fundamentals of the Good Life.

If it is true that a third of our people are unemployed, it is also true that two-thirds are at work. If it is true that a large fraction of our people are improvident and careless of tomorrow, it is likewise true that the majority make the sacrifice necessary to provide for the future. It is true that the welfare of all of our people is alike the concern of the Government and the citizen, it is also true that welfare cannot be achieved merely by distributing bounty.

Unemployment is a disease which feeds upon itself. Wholesale relief, particularly when its administration is politically minded, can and does actually destroy the opportunity for restoring employment by penalizing industry with excessive taxation. Relief, so administered, becomes an easy potion and generates the demand for more. Such a demand is of exactly the same nature as that posed by the pension proponents.

We have come to a period of great stress in social progress. It is the moment when the concept of welfare has been perverted, on the one hand, to political uses, on the other hand, to the mortgaging of the future for present demands for plenty. We shall have to go through with this period, although the cost will be very great. But it is certain that we will emerge with the sober consciousness that the silent men and women who propose no nostrums and appear on no rostrums, but who devote themselves wholeheartedly to the production and saving of real wealth are the true benefactors of mankind.

May the offerings of this convention strengthen your faith in the individual, the system, and the State which can pay its own way. May it deepen your sympathy for those who cannot. May it quicken your judgment to distinguish between those who are the victims of a system and those who are the victims of themselves. May it help you to distinguish between welfare and waste, between pity and prodigality, between human kindness and human weakness. Not the least of our need at this moment is to avoid the current hysterias. Never before has the power of importunity been so perfectly demonstrated. The constant repetition of errors breaks down resistance. Even the strong who ought to know better, are silent and uncertain in the presence of what they know to be false doctrine and destructive practice.

There can be no peace in the world without justice and charity. We are desperately in need of a genuinely human response to the victims of proverty and persecution. But these compelling necessities need not blind us to the waste and extravagance which is everywhere evident; nor to the menace of a false philosophy masquerading under a noble emotion, which proposes a distribution of real wealth by methods which would weaken, if not destroy, both personality and responsibility in the bulk of the beneficiaries. The conservers will one day be recognized as the real champions of social justice. The men who are most deeply conscious of the world's needs are seldom given to oratory. They are rarely found among the Demagogues of Promises. They are the men who work and save—on whom all groups in society must ultimately rely.

COMMITTEE and OFFICERS' REPORTS—NATIONAL BANK DIVISION

Address of President Russell G. Smith, Vice-President and Cashier, Bank of America N. T. & S. A., San Francisco, Calif.

President Smith, prior to presenting his prepared address, said:

At this time in the program, according to tradition, the President of the Division should read his Annual Report to the members, reporting on the work and the activities of the Division during the year. With your permission, however, I should like to depart from tradition this afternoon.

When I began the preparation of this Annual Report it speedily became apparent that under established custom I was faced with two alternatives. One was to write a full and detailed account of our work in your behalf, and to intersperse here and there as I went along such comment as appeared pertinent. This would have made the report overlong for presentation at this meeting.

The other alternative was to prepare merely a short summary of the Division's work, touching only the highlights. This I felt was not desirable for the reason that the members of this Division are entitled to a full and complete report of the stewardship of the Division officers in their behalf.

Seeking a solution to this problem I borrowed a leaf from King Solomon's book and divided my Annual Report into two parts. In the printed report of this convention will be found a full and detailed account of Division activities during the year, together with some discussion of current matters of interest to our members. I respectfully recommend to your attention, when you receive your copy of the convention proceedings, that report.

Now, with that Annual Report out of the way, the way is clear for a frank discussion of a number of matters that I believe merit the full attention of every one of us. That part of the annual message which is delivered here today will involve the consideration of those subjects. For this purpose I am reserving a short time on the program later on, and I am going to give the other speakers the opportunity to use the time before that.

[Remarks by President Smith following addresses by scheduled speakers.]

A little earlier in this meeting I warned you that I was reserving a short period of time later in the meeting to discuss with you various subjects which, in my opinion, merit consideration. Now the time has come. Our annual conventions are held for the express purpose of bringing us together for frank discussions of our very common problems, and to make more effective the work of the Association and the Division in representing all of us.

In order to make possible a full realization of this purpose, it is essential that we discuss fully and freely among ourselves those matters which deserve our attention. I venture to discuss these subjects only because my experience in the past year has made it clear to me that they have a significance for each one of us that we cannot ignore.

The prepared address of President Smith follows:

With the closing of the Division year at this convention it is my duty to report to our members on the activity of the National Bank Division during the year and, in behalf of the Division officers, to render an accounting for the trust which was given into our hands at the Boston convention in 1937.

Organization and Growth of National Bank Division

It may be of interest to know that the National Bank Division was organized at Seattle, Wash., in 1915, and that the first meeting of the Division represented only about 75% of the National banks of the country. That the Division has been of value to the National banks which make up its membership is shown quite clearly by the fact that today, on the occasion of our 24th annual meeting, we find the National Bank Division representing approximately 98% of the total resources of all National banks in the country. Out of a total of $30,387,082,000 in resources reported for all National banks as of June 30, 1938, National Bank Division members accounted for approximately $29,750,000,000.

In point of numbers, also, our membership stands at a very satisfactory level. At the end of August the Division had 5,506 members on the rolls and represented nearly 90% of our National banks. Credit in full measure for this achievement is due to the past and present Membership

Committees of the Association and of the Division, for they have been unceasing in their efforts year by year.

Condition of National Banks

May I at this time direct your attention to certain facts revealed by the report of the Comptroller of the Currency outlining the condition of National banks as of June 30, 1938. Considered entirely by themselves these figures reveal very satisfactory progress. However, when they are considered in the light of events between June 30, 1937, and June 30, 1938, they are little short of amazing. Within that period we saw the Nation's economic and industrial activity go into what was perhaps the most precipitous decline in our history. While not as severe in its ultimate effects as the great depression of 1930-34, the "recession" of last summer and fall was even more notable for its sudden impact and abrupt decline. It is indeed a tribute to the inherent strength of our National banking system and to the managing ability of our members that our National banks actually finished the year in stronger condition than ever. Total resources of all National banks on June 30, 1938, amounted to $30,387,-082,000, an increase of $50,011,000 over the June 30, 1937, total. The number of National banks in operation during the year decreased from 5,299 on June 30, 1937, to 5,248 on June 30, 1938, a decline of 51. This decline was occasioned mainly by mergers and consolidations, as but four National banks closed during the year.

Total National bank deposits on June 30, 1938, amounted to $26,815,-894,000, the highest level since Dec. 31, 1936.

Worthy of mention also is the fact that in the face of depressed business conditions throughout the period covered, National banks provided added protection for their depositors and stockholders through the net addition of $61,654,000 to total capital funds. Retirement of preferred stock by National banks continued at a very satisfactory rate during the year, a total of $32,882,000 being paid off. Since 1935 the amount of preferred stock in the capital structure of National banks has been cut practically in half, dropping from $525,122,000 on June 30, 1935, to $266,095,000 as of June 30, 1938. Incidentally, later figures which have been released indicate that the retirement of preferred stock by National banks is continuing at an excellent pace at the present time.

During this same three-year period total capital funds of National banks were increased from $3,086,418,000 to $3,273,819,000, a gain of $187,401,000. This steady trend toward a stronger National banking system is something in which all of us may properly take pride.

Division Action to Improve National Bank Earnings

Although careful management has improved the situation appreciably during the past few years, the question of earnings continues to evade a wholly satisfactory solution. Our National banks have experienced over a long period of years a progressive narrowing of their normal field of credit operations, due primarily to basic changes in certain of our economic processes and in methods of financing industry and trade. Another important factor has been the steadily increasing competition both from governmental and private sources. The problem is not aided by the fact that there is little or no flexibility in our expenses. The Nation's rising standard of living, of which we thoroughly approve, makes it very probable that our payrolls for some time to come will continue the upward trend which has been in evidence for several years past, and the steadily increasing incidence of taxation of all kinds does little to improve matters. In addition, we find nearly every other category of expense also showing an inescapable increase.

Early this year the Division prepared and sent to each of its members a comprehensive tabulation of earnings and expense ratios of all National banks for the year ended June 30, 1937, together with comparative ratios for several years previous. These figures illustrate clearly that while our National banking system is steadily making progress in operating efficiency, earnings still leave much to be desired.

In this connection I might say that at the beginning of the Division year a special committee was appointed under the chairmanship of Thomas R. Hefty, President of the First National Bank of Madison, Wis., for the purpose of preparing a bank management handbook which would be useful to our members in (1) making an exhaustive analysis of every item of expense, (2) exploring thoroughly the possibilities of every actual and potential source of income, and (3) setting up budgetary systems for the coordination of income and expense. The members of the committee have kept especially in mind the requirements of the average National bank and the results of their labors, soon to be available to our members, will merit the appreciation of all of us.

Legislative Developments—Actual and Potential

Among the external influences affecting the banking business, one of the most potent is to be found in the field of legislation. The interest of our Division in legislative matters is limited strictly to preservation of that which has been tried and found good, and to the furtherance of laws designed to improve both our operating efficiency and the equity of our position in the Nation's economic structure. We should not do more, and we cannot do less.

The Government reorganization bill considered by the last session of Congress provides a good illustration of Division activity in this respect. We knew that under the provisions of the proposed legislation the independent status of the Comptroller of the Currency was in possible jeopardy. As this agency of Government has proved its worth by 75 years of service to the National banking system, we were confident that our members would have a real interest in its preservation.

In order to confirm this belief, a quick canvass of National bank opinion throughout the country was taken by the State Vice-Presidents of our Division. The result showed practically unanimous opposition to any change that would affect the independent status of the Comptroller's office. Although the necessity for definite Division action on this matter was obviated by the defeat of the reorganization bill, it is certain that this question is far from settled. We may be sure that the trend toward centralization in our Government is going steadily forward and that the Comptroller's office is not likely to be immune from its effects. I am confident you will agree with me when I say that if National bankers are not to lose the distinctive features of our Federal charter, we must continue aggressively to defend the independent status of the Comptroller of the Currency. It is possible that an inkling as to the future is given by the recent transfer of the Comptroller's Legal Division to the direct jurisdiction of the Treasury Department. The introduction of the Smathers bill at the last session of Congress provides another illustration of the trend toward consolidation of supervisory powers. Certain it is that these and other recent developments do little to reassure National bankers as to the future status of the Comptroller's office.

While none of us will question but that consolidation and coordination of governmental activities in the interest of economy and efficiency are much to be desired, we do question seriously that the elimination of the Comptroller's office can be defended on either ground. The office of the Comptroller of the Currency cannot in any sense be considered a burden upon the taxpayer, for the cost of maintaining that office falls mainly upon National banks and, to a much smaller extent, upon the Federal Reserve banks (expenses of Federal Reserve currency issues). The report of the Comptroller covering the fiscal year ended Jun 30, 1937, shows that 96% of all expenses connected with the Comptroller's office during that year were reimbursed by the banks. This being the case, any attempt to make the present functions of the Comptroller more directly subordinate to the Government cannot be regarded other than as a threat to the independence and the identity of our National banking system.

Nor can the much publicized "duplication of examining bodies" be accepted as a valid reason for consolidation in this case, for duplication does not exist in National bank examinations. National banks are examined by the Comptroller of the Currency only, and these examinations are accepted both by the Federal Reserve banks and by the Federal Deposit Insurance Corporation, except in special instances.

However, National bankers will, I am sure, lend their support to the proper kind of coordination. The Government-sponsored Federal Savings and Loan Associations should most certainly be brought under the same kind of iron-clad rules and restrictions that now govern banking, and in addition there should be a stronger degree of regulation in the whole public interest of the many and varied lending agencies which the Federal Government is now operating in competition with the activities of our banks. The present supine attitude of banks in the face of wholesale governmental invasion of their field constitutes an invitation to further competition. It is my feeling that bankers should enter upon a determined and continuing effort to reclaim the banking business in this country for those whose field of endeavor it rightly is.

However, legislative developments during the year have on the whole been very satisfactory to National banks. During the last session of Congress a number of measures came up for consideration which would have been definitely to the disadvantage of National banks. Some of these bills represented proposals which the Division has opposed time and time again in years past, and I am happy to report that once more they made no progress. On the other hand, it is a pleasure to report that a number of statutory changes were secured which will have the effect of permitting a more logical operation of the specific bank process to which they refer. Worthy of mention in this connection are the provisions in the Chandler Bankruptcy Revision bill granting specific permission to National banks to pledge Government securities for the deposit of bankruptcy funds and with the further provision that such security is to be placed in safekeeping with the Federal Reserve Bank. Thus, in one bill we have secured both a desired clarification of National bank powers and a better, more economical method of handling such pledges of securities.

The amendments to the National Housing Act passed during the year have been very favorably received by National bankers. The Federal Housing Administration provides us with an excellent example of that type of Government cooperation with private initiative which is beneficial to all.

Our efforts also were instrumental in obtaining an extension for one year, or until June 16, 1939, of the final date to which loans to executive officers of member banks of the Federal Reserve System, made prior to June 16, 1933, may be renewed or extended. As is often the case where a blanket restriction is imposed, the existing prohibition of every type of loan to bank officers in excess of $2,500 has been found in practice to work an undue and wholly unnecessary injustice to the officers of many banks. Its effect has been particularly noticeable in that it makes it impossible for a member bank to assist one of its younger officers in the purchase of a home, however well secured such a loan might be. With a view to eliminating one of the more obvious faults of this restriction, the Division has recommended that an exemption be made from the present restriction in the case of loans granted to bank officers under the provisions of the National Housing Act. This proposal is so reasonable and fair that we cannot conceive of any logical ground upon which it may be opposed.

A review of legislation would not be complete without some mention of the Social Security Act, the Fair Labor Standards Act of 1938, and the National Labor Relations Act. Although the provisions of these enactments have not as yet been legally determined to include National banks, there is the possibility that any one or all of them will be so adjudged. These measures are being studied closely at the present time in the interest of National banks.

However, with respect to the Fair Labor Standards Act, there would seem to be no reason why National banks should not gladly observe the spirit of the legislation as a voluntary act of cooperation with the efforts of the Government to improve the living standards of the American people. The wage provisions of the Act are so far below National bank salary levels as to constitute no problem at all, and any necessary adjustments in hours of work would be very minor for the great majority of National banks.

Such action on our part would be well received and would not in any way prejudice our position in relation to the legal aspects of the Act and their bearing on other questions.

It seems to me imperative that National bankers take an increased interest in legislation, both State and national, which affects their business. We should take the initiative in securing legislative changes affecting our business which are desirable both from the viewpoint of the public and of banking. We must be always on the alert to improve our methods of doing things and to eliminate any undesirable practices which may creep in. In a nutshell, bankers should lead the way in bettering the banking business and not have to be pushed into making every change that is desirable.

By the same token we should not hesitate to voice our sentiments with respect to proposals affecting our business which are contrary to good banking judgment. The move currently under consideration to require the maintenance of 100% reserves against interbank deposits may be placed in this category. Even if the requirement were made operative only in the case of inter-Federal Reserve District bank deposits, the inequity of the proposal would differ only in degree and not in principle. Entirely aside from the fact that such a requirement would be extremely unfair to a large number of banks, the proposal is ill-advised because its effect would be to prevent such deposits from performing their present useful function as a part of the Nation's credit base.

Unity of Division Policy

If I may be permitted a word in retrospect at this point, I should like to recall to your mind the role which the National Bank Division has from its inception played in the activities of the American Bankers Association as a whole. The National Bank Division was organized to represent the interests of all National banks in the affairs of the American Bankers Association. From its very start it has attempted to do just that. The Division has always recognized fully that there are different kinds of banking and different philosophies of banking represented within the Division membership. The Division has always taken the broad view

that the interests of its membership were on the whole alike, and that its proper function was to serve all the banks belonging to the National Bank Division with equal and impartial energy. All of us know that the problems which face our National banking system and its individual members are many and varied. To serve properly those who have placed their representation in our hands requires our full and united strength. I can say that during the past year the Division has worked earnestly and sincerely for the benefit of all of our members.

Reduction in Basic Examination Charge

From time to time the Division has made inquiries relative to the cost of National bank examinations. Likewise, upon several occasions the Division has made representations to the Comptroller of the Currency on behalf of many of our members who have considered the charges to be somewhat high. The cumulative effect of these representations, together with a reasonable and fair-minded attitude on the part of the Comptroller's office, finally resulted in an announcement during the year that a reduction of 25% had been ordered in the basic examination charge for the calendar year 1938. Accomplishments of this character are concrete evidence of the continuing concern of the Division for the welfare of its members. For many of our members the savings thus effected through this single item alone will be substantially in excess of their annual Association dues.

Capital Loans and Bank Underwriting of Securities

Currently there are being considered in the Nation's Capitol a number of proposals designed to improve the availability of both small and large capital loans to industry and business. The Division is in complete harmony with those objectives of the proposals which are based on sound and proven banking principles, but question any departure from present methods which would have the effect of relaxing credit standards or creating further unnecessary Government competition with the Nation's banks. National bankers, in common with other classes of bankers, wish to make every contribution possible to business and industrial progress. We doubt, however, that any change in methods or terminology can make a bad loan good or make a long-term loan with short-term funds a truly bankable proposition.

So far as the need for intermediate capital credit is concerned, it is certain that the Nation's banks are amply provided with the savings funds from which such semi long-term loans may properly be made. If all of our banks will seek earnestly to fulfill the credit requirements of business and industry within their respective communities, there will be no basis for further Government-sponsored competition with private banking.

With regard to a revival of bank underwriting of securities, even in limited degree, it can only be said that past experience has demonstrated from several angles the essential incompatibility of normal banking operations and security underwriting. It is to be hoped that any move in this direction will be attended by intensive study and a proper regard for the lessons of the past.

Research Projects Referred to American Bankers Association

Our Committee on National Bank Research, headed by William F. Augustine, considered a number of possible topics for useful research during the year, and as a result of their deliberations four subjects were referred to the President of our Association with the recommendation that they be given further study by the appropriate Association committee and the desired remedial action sought. The subjects were as follows:

1. That a certain percentage of the currency and coin held by member bank be allowed as a deduction from their gross demand deposits in the calculation o reserves rquired to be maintained with the Federal Reserve banks.
2. Elimination of the reserves now necessary to be maintained in Federal Reserve banks against deposits which are required by law to be secured by obligations issued by or fully guaranteed by the United States Government.
3. Allowance of the same deductions from deposits, in calculating FDIC assessments, as are permitted in the calculation of reserves required to be maintained with the Federal Reserve Bank.
4. Elimination of FDIC assessments upon deposits which are required by law to be secured by obligations issued by or fully guaranteed by the United States Government.

The Division feels that if we are successful in obtaining the desired changes the results will be beneficial not only to National banks but also to those State banks which are members of the Federal Reserve System and of the Federal Deposit Insurance Corporation.

Other Projects

There are a number of projects which the Division is considering at the present time which may possibly be carried through to completion for the benefit of our membership. One of these has to do with the uncertain validity of the practice of guaranteeing signatures on securities purely as an accommodation to customers, and the assumption of the liabilities thus represented. The Division is at present weighing the desirability of securing a clarification of the powers of National banks in this respect.

It has also been suggested that an attempt be made to do away with the present requirement that National banks furnish the Comptroller of the Currency with an annual list of stockholders. Preliminary investigation has served to establish that there is no present need for fulfilling this requirement annually, and as it represents a considerable task for many National banks we feel our members will have an interest in its elimination.

Banking and Labor Relations

At this point may I say a word on the relationship between the management of a bank and the bank's staff? Whether or not employee-management relations in banking are to be the same in the future as in the past is a question which we can largely decide for ourselves. Although to some it may not seem so, as a matter of fact the question is almost entirely one for our own choice. If we give our employees proper working conditions and equitable salaries; if we show a cordial and human interest in their welfare, both on the job and away from it; if we keep ever before them by concrete example that advancement in the bank is a reality and not a theory, it is highly unlikely that our employees will allow outsiders to become their champions. A study of industrial history in this country as it has developed over the past several decades convinces me that employees have in the years gone by turned to outside assistance only when they despaired of receiving any consideration from their employer. Then, having accepted outside leadership, many allowed themselves to be led to extremes with consequences injurious to all.

Within the past year or so we have seen several attempts on the part of organizers to get a foothold in banking. That they have not succeeded may be credited primarily to the innate good sense of the stable majority of bank employees. They have seen what constant industrial strife has done for workers in other fields, and they want none of it. They know, too, that the surest way to kill individual opportunity in the banking business is to impose upon it the same straitjacket which goes under the name of "division of labor" in organized fields.

While there is little question but that in many lines of endeavor the process of classifying each position strictly and within narrow limits performs a useful function, banking is most certainly not one of them.

To segregate into rigid brackets the many functions which the employees of banks perform would constitute a serious disservice to our co-workers, for it would serve only to introduce a succession of stumbling blocks to advancement in the bank. Instead of progressing freely through the various departments of the bank, adding steadily to banking knowledge and earning ability, bank employees would find the various positions in the bank that are now regarded as preparatory, crystallizing into permanent careers.

Under the merit system which is in operation in American banks today our employees have the certain knowledge that the road ahead is always open and that the only limitation on advancement is that imposed by the ability of the individual employee. They know that among today's office boys are tomorrow's bank executives. They like this system and they want to keep it. It is up to us to do our part by seeing that each one on our staff receives fair treatment in every way and that exceptional individual merit is accorded the fullest possible recognition.

Rates of Interest on Savings Funds

At this point I should like to say a word concerning a matter of bank policy. I refer to the present tendency to pay lower and lower rates of interest on savings funds. Although I appreciate fully the conditions which have prompted this policy, I cannot feel that the ultimate effects of paying a starvation rate on savings funds will be other than harmful to most of the National banks pursuing such a policy. If a bank, after full and deliberate consideration, wishes to discourage savings depositors by paying little or no interest, that is its concern. I feel sure, however, that most banks do not wish to drive their depositors away permanently, but are adopting the abnormally low rates merely as a temporary measure. Nevertheless, this policy, if long continued, must inevitably operate to drive our savings depositors straight into the arms of the Federal Savings and Loan Associations and similar organizations. Once there, it will be a long and expensive process to bring them back.

Most of our savings depositors are long-time customers who have built up their balances with us over a period of years. All things considered, it seems to me that we have a certain moral obligation to our old customers and one that should be respected even though it may involve some temporary sacrifice of earnings. If I may speak frankly, it is my feeling that all too often interest rate policies for the banks of the country at large extend from the policies adopted by a relatively small number of banks whose business is predominantly commercial. While such a policy of discouraging savings deposits may be desirable for them, it most certainly is not for the average National bank.

The average community bank has a substantial portion of true savings funds on deposit and can employ those funds profitably both locally and elsewhere. These funds form a very desirable part of the bank's credit granting base and their loss would be a serious one. May I recommend most strongly that in matters of policy-making, our National bankers consider their local conditions and base their policy strictly on what is best for their bank, and not try to follow policies established by city institutions whose problems and conditions of operation differ radically from their own.

Survey on Effect of Existing Capital Fund Requirements

Another matter upon which a survey has just been completed has to do with the present minimum capital and surplus requirements for National banks. Upon hearing the opinion voiced that the present minimum limits with respect to capital funds were creating a serious problem for many National banks serving small communities, I determined to make an investigation of the matter and, if such action appeared warranted, to seek an equitable modification in the interests of those National banks which found it difficult and in some cases impossible to obtain the deposit volume necessary to support properly the presently required minimum capital structure. Accordingly, I addressed letters to approximately 280 selected National banks throughout the country to learn the opinions of these bankers. Their replies confirm almost unanimously my preconceived notions regarding the matter. While all of us are naturally concerned with the maintenance of the highest possible banking standards in our National system, this desire must also be tempered by a proper regard for what is practicable and fair. A small National bank serving a community of four of rive thousand with a deposit potential of perhaps $300,000 or $400,000 at best should not be required to maintain $90,000 or $100,000 in capital funds. Not only is it difficult for such a bank to maintain a satisfactory level of earnings upon so large a capital structure, but in many States where taxation is based upon par value of capital stock or upon total capital funds such high capital requirements act to defeat the very purpose for which they were imposed.

While we appreciate fully what the problems of the past have been with respect to undercapitalized banks, we recognize also that a worthy zeal for correction may well take us too far in the other direction. If a capital-deposit ratio of one to 10 is considered adequate for a large bank, is it entirely fair to force a small bank to maintain a ratio of one to three or one to four, as many National banks are now required to do?

In this connection, I might mention that a cross-section survey of National bank opinion on the capital-deposit ratio legislation introduced in the last Congress showed strong sentiment against the measure. As you will recall, the measure proposed to fix statutory capital fund ratios at 10% of demand deposits and 7% of time deposits, with the necessary adjustments at two-year intervals.

While there was general agreement that some standards should be maintained, the view was widely expressed that capital funds should not be expanded solely upon the basis of seasonal or temporary increases in deposit levels or in periods like the present when deposits are unnaturally expanded by deficit financing and interest rates are at artifically low levels.

As a further commentary on this situation, our members will also have an interest in knowing that since Dec. 31, 1935, a total of 85 National banks have left the system to be absorbed or succeeded by State banks, while only 45 State banks have converted to National charters. These figures, while not large yet, indicate that the trend it out of the National banking system by nearly two to one. If the present capital requirements operate over any length of time to induce large numbers of small banks to enter the State systems, the numerical strength of the National system will be seriously affected.

New Examination Procedure and Investment Regulation

Although the new examination procedure and the new investment regulation have not been in operation long enough to afford a basis for extended comment, it may be said that both should have the hearty approval of bankers generally. Under their provisions the availability of needed forms

of bank credit should be materially increased without in any way relaxing the maintenance of sound banking standards.

A Word of Appreciation

During the past year it has been the policy of your officers to take no action on matters affecting your interests without consultation with as many National bankers as possible. On a number of occasions during the year we have asked our State Vice-Presidents to advise us concerning the feeling of bankers in their respective districts on matters of interest to National banks. The members of our Executive Committee and of the various other committees of the Division have also advised us from time to time of National bank opinion in their areas with respect to proposed Division activities in behalf of our membership. The Division also is indebted directly to a large number of its members for good counsel given throughout the year, and I wish to assure each one that his cordial cooperation is deeply appreciated.

It is not necessary to recount in detail the many and varied activities of the Division committees. Without exception they have functioned capably in the interests of all members, and our thanks are due them for a job well done.

In bringing this report to a close, I wish especially to commend to your attention the splendid spirit of harmony and unity that has characterized all of our Division relationships during the year just ended. It has been a constant source of inspiration to all of us who have served you in an official capacity. To have had the privilege and the honor of serving as your President is something for which I shall always be humbly and sincerely grateful.

Report of Committee on Nominations—Newly Elected Officers

President Smith: Is the Chairman of the Nominating Committee ready to report?

Edwin N. Van Horne: Mr. President: As you know, each Federal Reserve District is represented by one member on the Executive Committee of the National Bank Division, and we have four members whose terms expire with this convention.

The new officers duly elected, including the new Executive Committee members, named to take the place of those expiring, follow:

President: H. E. Cook, President Second National Bank, Bucyrus, Ohio.

Vice-President: Melvin Rouff, Vice-President Houston National Bank, Houston, Texas.

EXECUTIVE COMMITTEE

(Term expiring 1939)

Thomas R. Hefty, President, First National Bank, Madison, Wis. Federal Reserve District No. 7.

Richard R. Hunter, Vice-President, The Chase National Bank, New York, N. Y. Federal Reserve District No. 2.

Andrew Price, President National Bank of Commerce, Seattle, Wash. Federal Reserve District No. 12.

W. J. Waller, Vice-President, Hamilton National Bank, Washington, D. C. Federal Reserve District No. 5.

(Term expiring 1940)

Walter H. J. Behm, President, Winters National Bank & Trust Co., Dayton, Ohio. Federal Reserve District No. 4.

W. C. Bowman, President, First National Bank, Montgomery, Ala. Federal Reserve District No. 6.

W. L. Dean, President, Merchants National Bank, Topeka, Kansas. Federal Reserve District No. 10.

Ralph A. Gregory, President Third National Bank & Trust Co., Scranton, Pa. Federal Reserve District No. 3.

(Term expiring 1941)

E. W. Hunt, President, Home National Bank, Brockton, Mass. Federal Reserve District No. 1.

S. A. Phillips, Vice-President, First National Bank, Louisville, Ky. Federal Reserve District No. 8.

C. B. Bromback, Assistant Vice-President, First National Bank & Trust Co., Minneapolis, Minn. Federal Reserve District No. 9.

Lang Wharton, Executive Vice-President, First National Bank, Dallas, Texas. Federal Reserve District No. 11.

Nominations Presented by Following Nominating Committee

Nominating: Edwin N. Van Horne, Executive Vice-President, American National Bank & Trust Co., Chicago.

J. R. Cain, Vice-President, The Omaha National Bank, Omaha.

Oliver G. Lucas, President, National Bank of Commerce, New Orleans.

STATE BANK DIVISION

AMERICAN BANKERS ASSOCIATION

Twenty-Second Annual Meeting, Held at Houston, Texas, Nov. 14, 1938

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What State Banks Can Do

By C. B. AXFORD, Editor of the "American Banker," daily banking newspaper of New York

President Brinkman in introducing Mr. Axford said:

Our first speaker this morning is known to many of you, and I think all of you know about him. He has been the editor of "The American Banker" since 1929. He appeared before this Division in Washington—I think in 1934. He is not very often on the platform. I know that we shall all welcome a chance to hear him this morning when he discusses the question of "What State Banks Can Do."

Mr. Axford: I wish that Mr. Brinkman and I had gotten together, perhaps, on what we were going to say. I probably will echo some of the things he has said here in my own humble fashion and if I do, it is because there is no collusion in this performance. I almost can start out where he began with the thought that if we State Banks slip away from our national affairs, the country will be different from the one our forefathers knew. I want to carry the thought further, though; that we need more than merely State Bank Division activity. We need to keep awake the consciousness of the other Divisions—the Savings Division and the National Bank Division and the Trust Division. Their institutions are in the same boat with State banks in most of the things that the State Bank Division is and will continue to fight for.

We were discussing the topic on which I was going to speak and I said, "Well, I would like to say some of the things which I think the State banks should do. Suppose we say, 'What Can State Banks Do.'" Somebody said, "Some one will read it this way, 'What *Can* State Banks Do.'" Then we got it twisted up into "What State Banks Can Do." I looked it over when I finally had decided on it and I was in the same position of the man who wrote the dictionary. It was a very interesting job but it changed the subject so often.

Mr. Axford's address follows:

Symbols are important. Their rise and fall measure the growth and decline of ideas and ideals.

When we look about for a symbol of our American philosophy of liberty of the individual and our ideal of representative government deriving its just powers from the governed, what may it best be? We have rejected the idea of Divine right of kings and emperors, of dictators, who try to say like Kaiser Wilhelm, "me and God," or, like Louis XIV, "The State, it is I." We have challenged the politically bankrupt old world, oriental philosophy that common man exists for the State and dares not dream of possessing the coin of liberty. Our symbol? Is it not the symbol of our union of States? We are the United States. Our banner is not a symbol of dominant imperial authority, a crooked cross, the fasces or a single central sun, but a flag with a starry field in which 48 free and equal States shine in a union bound round with the ideals of the 13 colonies which we remember in the alternate red and white bars of our star spangled banner.

That American system of 48 independent and sovereign States has been under criticism of recent years. There are men who tell us that this system, which has functioned as a check on centralized power, as its creators intended it should, is outmoded. They whisper that we should get a 1939 streamlined model. What they mean is a fully automatic, Government machine, every detail regulated from the central driver's seat, and all the rest of us riding in the rear seats—without even the "back seat driver's" privilege of opening his mouth!

Does not this so-called 1939 model look suspiciously like the oriental-old world models which the fathers of our liberties decided was outmoded 150 years ago? Their's was an ideal of the rights of free men safeguarded by free States, united in a free Nation. But nether individuals nor States nor nations have rights under our worldwide 1930 relapse into the barbarism and despotism of one-man Government. We must not mistake relapse for recovery, or a plot to destroy human rights for progress.

Our States are essential elements in our concept of political progress. As long as they stand, the American ideal of liberty will not lack for lines of defense. But when States lines are erased, at least let the stars and stripes come down. No man can advocate the wiping out of States rights and State legislative authority and still pledge allegiance to the stars and the bars that remind us daily that this nation is first and fundamentally the united States.

A few weeks back we saw the philosophy of Statehood demonstrate its value as a defense mechanism against one-man rule. One by one the peoples of six States rose up to re-elect as their representatives in Washington men who dared to challenge a step toward executive control of our courts.

They faced the Executive with all his power and denied him the privilege of telling or selling them in the way they should vote. Thus our States and their people, as long as they are free and independent, will stand to face, in the future, any man "who would be king," be he Republican, Deomcrat, or what-have-you.

But what has all this to do with State banks? My topic is, "What State Banks Can Do." I seem to have wandered far afield. But have I?

This year we are celebrating the 75th anniversary of the creation of the National banks of our banking system. Why were these banks created? Was it not because in the crisis of a great war, it was found that a Government with its own banks could not be economically free? Its Treasury financing might be in unfriendly hands, its right to self-determination financially crippled?

Go back still further and recall the beginnings of the First Bank of the United States, and the Second. Was not the concept clear even then that our Federal Government must be paralleled by a National bank system which would free it from possible domination by banking interests possessed of non-cooperative political ideas?

This is an old story. But it is also as new as today's and tomorrow's attacks on our systems of State banking. Look at Russia, Italy, Germany, England, and see how closely government and banks work for, in their case, a common central party end. And no one can stand against this combination in the dictators' countries, because without friendly banks, local political causes lack control of the "sinews of war" and their opponents wielding the power of the banks can use every weapon of credit to crush them.

Thank Providence that in this country the principle of separation of government and banks has been kept paramount with the theory of interdependence of bank and government. We have not seen banks used as parts of a political machine for over a hundred years. But that is not to say that it will always be so, unless we are determined to have it so.

However, it should be clear that even as the Federal Government has found itself dependent upon a national and Federal banking system for full freedom of action, the future of our States is linked closely with the thing we discuss today—State banks.

As long as our State banks exist, they stand as a bulwark for State governments, and as long as States stand they stand as a bulwark for the liberties of the sovereign peoples of those States.

Our State banks are banking of the people, by the people, and for the people—more than anything that can ever be given them from Washington.

If I were to set out deliberately on a program of enslaving economically the American people, their homes and their communities, I would begin by tricking them into surrendering their country banks to their city banks as branches, their city banks to their State financial center banks in still greater systems of branches, and then surrendering these banks and their scores of branches to a few great systems with thousands of branches and headquarters in San Francisco, Chicago, New York. I would do that because I know that money power and political power sleep in the same bed, and that once I had taken away from a local community's people control of their local banks and their own money, I would have a veto power on all free initiative in that community, both economic and political. This is no idle dream. The Socialists and Marxians preach nationalization of banking to get control of industry and local governments. The Nazis and Fascists practice it. The highly centralized German and Italian banking systems were the most convenient mechanisms in the world for their dictators to use to say to the local businessman, industrialists and political leader, "Watch your step!" or, better, "Watch my step on you!"

If a man were setting out to emulate those dictators his first point of attack would be the 48 State banking systems, alleging them to be an inefficient anchronism, as obsolete as Noah's Ark. He would begin by shunting over the banking power to a Federal Administrator, to whatever economic or political party controls at Washington. Since National banks have continued to be local banks in their nature, we might be fooled into thinking that nationalized banking would keep local in nature. But would it? The existence of State banks has acted, I believe, to stop Federal National banking ambitions. With State banking gone, who would there be to oppose the interstate branch bankers and say, "nay," to the would-be nationalizers of our system? Who?

At this point may I emphasize the absolute need of the local National and State bank to see eye to eye in the preservation of State bank systems.

The day of the local National bank will soon pass when the local State bank no longer exists. Wherefore local, State and National banks must stand together. If they don't stand together they will certainly fall together.

The American banker is opposed to branch banking, to nationalization of banking, to centralization of our credit control, because we believe something fundamentally American is lost with every step that control of their banks and money is further removed from the free hands and free minds of the local community!

We oppose branch banking as we would oppose any effort to let some central authority set up the voting qualifications of citizenship, the exercise of the ballot, the regulation of our churches, schools or newspapers. Any one of those things are in the very fiber of our national system of representative democracy—Government responsible first and last to the loca citizen and his free will. We are for independent unit banking because we believe that as long as local money is administered by local people in local banks they are masters not only of their own business and credit destiny, but free architects of their own political and economic destiny as well.

We want no credit trusts in the United States, to tell the local man what he can or cannot do.

It is our faith—my personal faith—in the spirit of American philosophy that any man who attempts that, or attempts to march us in that direction, either by creating branch and chain banking or by the more indirect approach of wiping out State banking, will be destroyed as soon as the American people realize and recognize what he is up to! Yet who is there to awaken them to save their State banks and the State system which was designed to protect them in their rights?

There are many fancy arguments raised against our "48 banking systems," our State banking systems. Our dual banking system of banks essential to Statehood and banks essential to nationhood need defenders who will tell Congress, our State legislatures, and the people of those States the other side of the argument—the side in favor of State banks! And there are plenty of arguments on the side of the States and of State banking, I assure you.

We need to explode first of all the adulation which has been so assiduously cultivated for our Federal Reserve System. We need to have some realization that it has been party to some of the worst crimes in our banking system. Conceived as a mechanism for safeguarding the American system of banking and making credit available to the country bank, it is today alibiing for its third failure since its creation 25 years ago. If it were a little country bank, it would have been liquidated long ago. Instead the managers are telling us what the country needs is more centralized banks.

But, instead of being charged with its errors, crimes and shortcomings, this "Federal gift to banking" has cloaked its operations in such esoteric monetic mysticism that we stand in awe and ask ourselves who are we to criticize. Nevertheless when we remember 1920, and when we remember how Federal Reserve policy turned abruptly from inflation designed to increase bank credit, prices and production to deflation and ruined hundreds of country banks whose chief crime was that they did their bit to increase credit and production to help win a war, we wonder how the Federal Reserve has covered up its tracks; when we remember how in 1929, 1930, 1931, 1932 the Federal Reserve management was unable to stem the tide of wreckage which crowned the Federal policies of the Harding-Coolidge-Hoover era, we wonder how the Nation can still stand in awe of the greatness of the Federal Reserve System of which we hear so much.

When we look at the ineffectuality of the Federal money managers since 1933 to get us anywhere except deeper in debt—why the stature of State banking climbs in comparison.

Yet one Washington spokesman after another tries to pin the blame on State banking. But let me say to you that only two weeks ago I heard one of the men who has been responsible for Federal Reserve policy confess in disillusionment that Federal monetary policy had been generally exactly the opposite of what it should have been since 1913. A fine commentary that on the people who want us to give more power to Washington to tell American bankers how to run their banks!

For instance, one of our banking problems today is getting the idea over to bank depositors that bank services must be paid for—service charges.

Forty years ago bankers knew that. They got their earnings from service charges. They collected them from the people who really benefit as much or more from the check payment idea as anyone in the transaction—the faraway seller of goods paid for by check. Then came the Federal Reserve Act to change all that. It was a new era! Banks, we heard, could operate without fear of a money panic. With exchange fees outlawed, banks needed a new source of income. But they could buy bonds (so called secondary Reserves) to build up their deposits to the limit permitted by the vastly increased basic bank reserves of the country. They could lend on securities, non-self-liquidating assets. The increased income replaced the loss of exchange fees. Banks were encouraged to bid for more and more deposits at fantastic rates. It *was* a new era. We are still reaping the whirlwind. And we are right back charging fees for bank services in handling checks, while buying more and more Treasury debt and inflating our deposits to supplement our income. The only difference is that whereas in pre-Federal Reserve days the seller of goods paid the bank which collected for him and he was far away, now we have to "soak" our depositors right in the face.

Oh yes! There is one other difference. The taxpayer is indirectly paying for all the free check clearing by the Federal Reserve banks and their branches since the chief source of Federal income is from their holdings of U. S. bonds and they must have that income to pay for the Nation's vast check clearing network, which in less fatuous banking days before the Federal Reserve, we charged directly to the business men who profited from the existence of the check collecting method of payments.

But all the blame and burden of these backhand blessings of national Federal legislation has been shunted into the laps of the State banks—it's time State banking had spokesmen who tossed the cabbage back into the National Government's backyard with the question of what the Nation has given banking that is any more perfect than what the States have created.

I have tried to show two sides of the picture:

First—The link of Statehood with liberties plus the link between banking and ability to defend those liberties economically and politically.

Second—The fact that we have plenty of evidence that banking error can stem from Washington, and that when the Pied Pipers of centralization of banking power—whether it be by branch banking or by increased U. S. Government banking control and power—when they begin to toss sneers in the direction of 48 State banking systems, the answer to them should be "since when can the pot call the kettle black?"

Now what can be done on behalf of the State banking systems? What can the State banker do? One of the needful things is more popular understanding of the theme of my first remarks—the link between local banking control and local liberties. We need spokesmen in our colleges—our newspapers. Where they already exist we need to amplify their voices to match the sounding board at Washington. I would like to see $1,000 prizes offered annually for the best college economics essay on the value of the local and State banking system to the Nation—for the best editorial on the same topic in American newspapers.

We should memorialize our State Legislatures to arouse them against every attempt at Washington to weaken the financial roots of local and State independence by undermining their banks. The State Legislatures need to memorialize State Senators and Representatives that a primary duty of every American legislator to the American way in Government—with its division of powers between people, State and Nation—is the preservation of the American system of State banks, sovereignty-coequal and dual with National banks.

I thing there should be on the agenda of the State Bank Division of the American Bankers Association a program of research and propaganda for the State bank system itself. This program should feed the more localized State Bank Associations to keep the idea alive back among the people of each State. Self preservation is the first law and duty of nature. It applies to governments and banking systems as well as to individuals. Self-preservation of State banking requires a conscious reaction to the fact that the idea itself is being attacked.

Propagation of the idea of State banking involves defense of the correspondent banking idea. That idea grew up with the whole American idea of freedom of initiative and local rule of credit and banking. There have been reformers gunning for the correspondent bank as long, it seems, as the memory of man runneth. It was expected in 1913 that the Federal Reserve enactment would end the correspondent relationship. But it did not. Now there are other voices at Washington which blame their failures to cope with credit problems not on themselves but on the correspondent system. We have yet, however, to see a convincing or even logical bill of particulars for their proposals for 100% reserves for correspondent bank balances—But there it is again—the old fever at Washington to find a scapegoat for Federal inability to make bad central banking do a good local job.

I believe also that every State banker—and every National banker who has the American system of local control of banking at heart—owes it to the State bank system to oppose branch banking. If big National banks once be authorized by Federal law to cross State lines, the day of the State bank will be at sunset. So will the day of banking of the people, by the people and for the people be also coming to an end. And in its place we shall have the credit trust, spreading its financial dictatorship into the local business and local politics of every town and city which it can bring into economic subjection by its chain of absentee managed offices.

Let us not be deceived, the credit trust is a real menace to the American ideas which our State bank systems and localized State banks exemplify. Let us not be deceived by the fact that it spreads its credit widely and seeks popularity by making credit easy in times of credit inflation, such as these. When readjustment times come, every sound borrower will feel the heavy hand of the far off money center which then drains the local community of its funds and credit. Moreover, every unsound loan or investment which the great bank with its farflung branches makes will become a reason for a cry for help to the Federal Treasury on the theory that no one in Washington has guts enough to deal with a big bank in the same impartial disciplinary way it can deal with a small bank, and should deal with all banks which are unsoundly run. That was amply demonstrated in Kentucky, Chicago, Detroit and San Francisco and elsewhere from 1930 to 1933, and it is being demonstrated again today in Washington in a situation which is being hushed up for fear it will cause a National banking scandal. Once more we have evidence that the National authorities are ready to alibi and excuse themselves in situations where State banks must "put up or shut up."

So I say, let us not be deceived. The existence of great branch banks would mean not only Federal participation in business, but Federal participation to discredit the small local bank by artifically supporting the ambitions of those politicians and ecomomic royalists whose fortunes and power will grow in the expansion of their insidious program of credit monopoly. Once your State Legislatures acquesce to a Federal move which lets out-of-State banking centers control or own the banking facilities of their State, the day will have passed when those States and their Legislatures can call themselves economically or politically free.

The old argument that we needed branch banking to supply non-banked communities has been definitely exploded. The motor car, as your next A. B. A. President has often pointed out, and the bank account go hand in hand. The modern bank can handle a territory 5 to 10 times the size of the bank in horse and buggy days. Such a territory can support a strong bank that needs no management from some far off banking center. Yet we still find the old argument of bankless towns cropping up. In New York State branch bank legislation was put over on the argument that there were 182 bankless towns. In the four years since, the chief activities of the branch bank crowd have been reducing profitable local banks to branch status. Only a dozen out of 182 New York bankless town have been given branches. The branch bank crowd wants only profitable offices in towns big enough to support their own banks. The motor car is the new factor in banking. The customer is mobile. Banking need not put on chains to reach him. And when he ceases to be prosperous enough to own even a second-hand car he will have little need for much personal banking contact, except to take care of his savings from time to time, on the occasion of his more or less regular trips to the nearby center for household or farm purchases in his neighbor's car.

The arguments in favor of the American system of independent and unit banking need re-emphasizing. State banks can and should do that, for as I have pointed out, the future fate of State banking and unit banking are joined. They stand or fall together.

The State Bank Division of the A. B. A. should be a storehouse of ammunition and the board of strategy upon which State bankers can call when some ambitious holding company tries to shove their State into Statewide branch banking—which is the first step toward interstate branch banking. The branch banker's appetite is not long satisfied with the power and expansion possibilities of a single State. He soon considers himself destined to be a National power.

But the A. B. A. is the best place to fight centralization, branch banking or Government banking—and State bankers can and should see to it that the A. B. A. is militantly ever headed up by men who are unquestionably on the side of the local community, the local bank, its State and its people!

There are other things which State banks can and should do beside mobilize in their State Associations, State Legislatures, State delegations in Congress, and in the A. B. A. against attacks at Washington which would replace our State bank system, correspondent bank system with Federal Government-dictated and inevitably branch-banked system.

We need to have better State banks, banks which are prepared to meet the reconstruction and readjustment which will come when our present National policy of subsidizing everybody finally breaks down (which I think will come about 1942 and get steadily worse for the 10 years thereafter).

We need to begin to understand the need for safer handling of local savings funds. To me mutualization appears the right idea, since this retains to the local community and its bankers control of local thrift funds without risk of local banking capital. It has worked grandly in New England. Branch banking is thoroughly discredited there. In Maine for instance, the branch banking experiment carried down 21 banks with 56 branches, but the mutual savings banks and their associated National banks or State banks stayed open. In the equally Yankee State of New Hampshire, a non-branch bank State, there were only five closings in the whole depression—excellent picture of the strength of unit banking when in union with mutual savings banking under State auspices.

If I were preparing defense and propagation strategy for State banking (and I think it should be prepared), I should consider at once something like creating State laws enabling local bankers to mutualize their savings balances, get out from under the risk of guaranteeing the investment trusts, which both National and State bankers are now running in the guise of commercial banks, yet retaining control for the local community of the local savings funds for local development.

I wish that I had time here to compare the story of Down East Canada with that of our own New England, territories similarly situated and with similar scant natural resources. You would see how eastern Canada, with its banking resources controlled through branch banking by absentee bankers, retrograded, its population moving out largely to New England in large numbers, attracted by the opportunities of New England towns where local banking made available capital for local development. And in the postscript of that story you would learn how through the use of an-

other instrument of local banking power, the credit union, and the co-operative movement, impoverished centers of eastern Canada are once more rising, as it were, from the dead through local thrift and local control of credit for local building and industry.

Believe me, in the coming 25 years of American banking, I would rather have a son of mine an employee or officer in a mutual savings institution than in a commercial bank overloaded with savings and investment assets. And I would rather have my community's savings funds in a mutualized trust than have them as liabilities of any bank in which I was risking capital, position and reputation on my ability to liquidate without loss the investments into which I had placed these savings.

There is plenty of money to be made still in straight commercial banking, once a banker accepts the principle that he does not need to strain for deposits, capital or risks in excess of the local community's ability to utilize commercial credits, and with income supplemented from service charges and elimination of interest expense. Small losses are the rule of safety in banking. The rule of commercial banking is to let your profit run and know your losses soon.

So, as something which State bankers can do for their own good I want to suggest here study and adptation of the idea of trusteeship of savings which the mutual savings institution exemplifies. My suggestion is that the banks of each community, acting jointly or singly, can accomplish such mutualization of the risk of their savings liabilities and investment assets as may seem wise.

Revolutionary as this idea may seem, I commend it to the State Bank Division for consideration; it may be evolutionary rather than revolutionary.

When our banks needed savings money to finance local commercial credit needs, savings may have had their place in our banks alongside of commercial demand deposits and checking accounts. However, when savings of our people grew beyond the needs of strictly commercial credits, and commercial bankers had to guarantee investment risks to employ such savings; they may have "missed the boat." There is, however, I feel, still time to consider ways and means of changing over, and I am ready to challenge the idea that there is any large amount of money to be made by commercial bankers in acting as the guarantors of the savings and investment business of this Nation; at the same time the risks involved are, to my mind, so great as to indicate losses vastly greater than the amount of profits possible. Moreover, the experiment in monetization of long term paper which has been the basis of our banking theory since 1913, and particularly since 1933, is the very negation of sound banking and economics.

We hear much talk about research these days. But the research seems directed entirely into the field of finding more profitable methods of banking. That is well and good. But I am here thinking out loud that we need research into sounder methods of banking as well, and the entire theory of banking which is exemplified by segregation of commercial and savings fund management appears to me to be a subject which our research projects have too long neglected.

"Let us learn more about banking" is another good idea for State bankers to promote their own good. May I commend to you the value of getting more A. I. B. trained men, and sending the pick of them from your State banks to the Graduate School of Banking of the American Bankers Association at Rutgers University each summer. I should consider myself fortunate among men if I had the privilege of such training, were I a young man in banking. State banking needs trained men, stimulated to thoughtfulness about the service which it is the privilege of banking to render to the American people.

Finally, I believe that we need a periodic examination of our banking affairs, and inquiry, as it were, into "the state of banking." State bankers can and should be more critical of their banks than outsiders who know them less well. If there are flaws, it is better that bankers discover and discuss them first. It is better that we recognize them within banking than that we wait for reformers at Washington or elsewhere to force their own prescriptions upon us.

When State bankers—and in fact all bankers—are more self-critical, we will know better also, "the reason for the faith that is in us," and knowing, we can defend better our American system in that particular field of the institution of State banking which has been left to us in trust by our forefathers.

State chartered commercial banks, State chartered trust companies, State chartered mutual savings banks—they all represent a heritage from the very beginnings of the American idea Together they are an essential and fundamental element serving to the local community the control of its own destiny through control of its own institutions of credit and thrift, in a way that no centrally controlled system can duplicate.

Today that ideal is threatened. Some day, somewhere, the American people will demand of their State bankers an accounting of their stewardshp of the duty left them in trust to preserve and propagate the American system of State chartered banking, coequal and dual with National banking, the first line of defense of those human rights and liberties which our States were created to defend. Will it be then that this duty was shirked, neglected as unimportant? Will the people of what were once our States, and the stars which represented them as sovereigns on that field of blue which is the symbol of our Union, say regretfully that there was much that State bankers could have done, but they did too little? Or will it be said proudly that thanks to the State bankers of those critical days, the ideal of banking for the people, by the people, and of the people, was not allowed to perish from the earth?

Comments following presentation of Mr. Axford's address:

President Brinkman: I am sure that we have all profited. We have a lot to think about from the address made by Mr. Axford. I think it is entirely proper to refer his suggestion in behalf of the State Bank Division to the incoming administration, the officers of which will be elected today. Sometimes talks of this kind get quick results. I have just had handed to me a note from Mr. Benjamin, Secretary of Banking of the Commonwealth of Pennsylvania in which he says:

"I heartily approve of the splendid suggestion made by Mr. Axford. In view of my whole-hearted interest in the State banking structure, proper public relations and education, I would be very happy to offer the prize for the first year if his suggestion is adopted and if my offer is in order."

Mr. Brinkman: That will also be referred to the incoming administration.

An Examination of the New Economics

By WILLIAM A. IRWIN, Assistant Educational Director, American Institute of Banking, New York City

President Brinkman: Our next speaker and the last one this morning on the program, prior to the business which we shall undertake following his address, is on the subject of "An Examination of the New Economics." Looking over the biography of this man, William A. Irwin, I see he was born in Ireland, was educated in Scotland, Canada, and England, and he came to this country to be a Professor of Economics at Washburn College.

William A. Irwin: *Mr. Chairman, Ladies, and Gentlemen:*

It is almost in the nature of an insult to an audience these days to begin by making the statement that we live in a world of political and economic turmoil. Wherever you look, north, south, east or west, you see that there are political institutions that are being changed.

The old idea that democracy was a good system of government is being challenged. Until today throughout the world there stand only three great nations that represent that old idea in political life: the United States, Great Britain and France—and even France is shaky. Nobody knows what may happen in that country tomorrow.

On the other hand, in the last few years there has been a growth of authoritarianism in government that has been one of the most amazing phenomena in all modern history. Country after country has turned toward that theory of government: Russia, Italy, Germany, Japan, Greece, Poland, Czechoslovakia under the domination of Germany, Spain, and perhaps tomorrow South America. There has never been aything like it in modern history—not merely political institutions or political inheritance is being changed, but our economic inheritance is also being changed. The time was in the life of most of the men and women in this audience, including myself, that the economic idea of free enterprise was widespread in its application and widespread in its practice. Today thoughout the world free enterprise is on the defensive. In its place the world gets controlled economy.

Colonel Leonard P. Ayres of the Cleveland Trust Co., in one of his bulletins not many months ago made this statement—I think I quote him exactly—"All over the world politics has taken control over economics." If we believe in democracy and in freedom of economic enterprise it is high time, I think, to examine our situation with critical eyes.

What are these new economics? I am perfectly well aware of the fact that I expose myself to the charge of making a political speech. That is not my fault. If politics has taken charge over economics, will somebody get up on his hind feet and tell me how you can talk on economics without touching on politics? It is an impossibility. That is true not only in the United States but in every country on top of God's earth. You cannot talk any more about economics without being charged with making a political speech. Since that is true, ladies and gentlemen, whatever your political belief, put the blame where it belongs. Don't put it on me. I am not responsible.

Let us look at the principles of the new economics. Let us look at them first of all internationally and then let us look at them in their applications to our own economic life.

In international affairs the fashion of the day is economic nationalism. Precisely what does that mean? It means in the first place that in the domestic life of the nations that have adopted economic nationalism all economic life is regimented. That means inevitably for the men and women who live under that kind of economic theory that if Government wants guns instead of butter you produce guns and tighten your belt if you can't get butter. The evidence is staring us in the face on the continent of Europe today.

It means in the second place that a Government which practices the theory of economic nationalism deliberately and consciously and with malice aforethought devalues its currency for domestic purposes. If that should mean the lowering of purchasing power for its citizenry, it is just too bad. Again, the citizenry will have to tighten their belts if their money won't buy what it previously bought. One of the inevitable accompaniments of economic nationalism, where it has been practiced, has been a lowered standard of living for the common people.

It means in the third place that these nations have adopted the use of stabilization funds for the purpose of controlling their foreign exchange, and they have deliberately manipulated it to advance the interests of the particular country, regardless of the effect on international economy.

Then it means in the fourth place that the deliberate object of economic nationalism is the building of an economic life that is substantially self-sufficient.

These four things represent the practice of the new economics in international affairs: All economic life regimented, currency devaluation for domestic affairs, stabilization funds for foreign exchange, and self-sufficiency.

If that succeeds generally in the countries that are practicing economic nationalism, you tell me what effect it will have on America. Do you say you are not interested? Are you from the South that produces cotton? Where will you get a market for your cotton? Are you from the Middle West or the Northwest or the Southwest that produce wheat? Where will you get a market for your surplus wheat? Are you from Iowa where you produce tall corn, lard? Where will you get a market for your surplus lard? Are you from the industrial areas that in 25 years have built themselves up for export trade? Where will you get a market for your surplus industrial products?

If economic nationalism succeeds in its aims, America cannot escape the effects and we might just as well recognize that fact. It means, in the second place, where economic nationalism is practiced that economic intercourse between nations is controlled as it has never been controlled before. That has meant already that the gold standard—a standard under which we built the highest level of living the world ever knew—has been abandoned. It means that quotas, embargoes, systems of exchange control over imports and exports are inevitably established. It means propaganda without parallel to advance the interests of the country practicing economic nationalism. It means, in other words, economic warfare in place of warfare with bullets, bombs and blood.

It means one other thing and that is this: It means that the map of the world is being changed.

For the boys and girls who started to school a year ago, the geography they learned is out of date. The map of the world has been changed in 90 days. The map that was good 90 days ago is obsolete this morning. An economic nationalism is bringing about that situation.

So much for international affairs. What about the new economics in American affairs? I propose to do nothing more nor less than to state the facts and let the facts talk for themselves. Anything more than that should be unnecessary before an audience of bankers.

The new economics for us has meant half a dozen things. It has meant in the first place that we have adopted the theory that Government must spend during the down swing of the business cycle. For 160 years in this country we have been characterized by hills and valleys of business activity [whistling to indicate] that has been characteristic of our American economic life.

An English economist advocated the idea that in periods of low valleys government should step in and spend until private enterprise should get back and lift business like that [whistling]. There isn't another country on God's earth that has adopted a policy that we adopted from an English economist. It wasn't good enough for his own country but it was good enough for the United States—the adoption of the theory that Government must spend during the down swing of the business cycle to restore business activity.

It has meant in America, in the second place, deliberate currency devaluation and that was supposedly designed to save the price structure. At the time at which it was adopted industrial prices were up and farm prices were down. And the theory of the men who advocated currency devaluation was that if you achieved that purpose you would raise farm prices like that [indicating] or automatically bring industrial prices down like that [indicating]. Industrial prices couldn't budge. Farm prices went like this [indicating by whistling] and we were back where we started.

And notice this, there are persistent rumors that we are not yet through with currency devaluation. You can't down those rumors. Of course, they are not coming from the center of all intelligence in the United States. They are coming from abroad and perhaps in that sense abroad knows a little bit more about the future than we do.

The third principle of the new economics has been this: That there must be enormous expenditures on relief, on the assumption, if you please, that private enterprise itself cannot or will not provide employment for the unemployed. At the same time, in order to encourage private enterprise to provide employment for the unemploded we deal sledge hammer blows at the heads of businessmen to make sure that they will recover their courage and reemploy the unemployed.

It has meant in the fourth place increasing control over the mechanism of money credit and banking, with the threat, if you please—the deliberate threat—that if we don't accept the control and more of it, we will eventually have Government ownership of all the mediums of money credit and banking. That is a principle of the new economics and I challenge any man to deny it. You cannot; it is the fact.

It has meant in America, in the fifth place, under these new economics, the expansion of control over various phases of economic production, on the theory that only in that way can the price structure be saved. It has been applied to oil, to cotton, to wheat, to corn, to interest rates. What next? Peanuts, perhaps, and something else after that.

The latest proposal is to establish a two-price system, one for you and one for the other fellow. What that will do toward economic life, only God knows; nobody else does.

Then over all these principles of the new economics there is one other thing: The acceptance of the theory and practice of deficit financing, with no prospect of its end.

Isn't it a remarkable thing, that it used to be respectable to balance a budget? It used to be that Chancellors of the Exchequer and Secretaries of the Treasury vied with each other to see which of them could do the better job in reducing the cost of government and lowering taxes. And this is Nov. 14, 1938!

Those, broadly speaking, are the elements of the new economics in the United States. There are other features but these will do: The adoption of the theory that Government must spend during down swings; deliberate currency devaluation; enormous expenditures on relief; increasing control over the mechanism of money credit and banking; constant expension of control over production; a new two-way price system for foodstuffs and acceptance of the theory of deficit financing.

What have the new economics done for us? I am going to face you with an array of statements of fact that you cannot challenge. Nobody can challenge them from the humblest man working with a pick and shovel or on relief to as far up as you like to go.

In the first place, under the practice of the new economics, internationally this is where we stand this morning: The world is at daggers drawn. Look at the armament raise that has developed in the last few months. Some of you men, like me, may have served in France. You remember the mud and the lice and the days and nights without rest and the rats that ate putrified human flesh. Economic nationalism has started us toward the same thing on a grander scale than the world ever saw before.

Would anybody like to deny that? That is the direct effect of the cutting down of international intercourse and trade and the substitution in its place of economic nationalism and no man can deny it. One of these days we will pay the price for that economic insanity whether we like it or not.

A second result of it—and I speak of it just as frankly as I have spoken of other things—is this: It has apparently at long last provided some kind of an opiate, a sleeping potion for enterprise. Even business today in large areas is accepting the spending theory.

The third effect—and again I am speaking to the records and I challenge anybody to deny it—it has failed to maintain the prices for which devaluation was supposed to be the prop. Speaking to the men of the farm areas—corn, wheat, cotton, hogs, cattle; go the whole gamut and what has happened to prices in spite of our new economics?

Well, last week the new economists heard from the farm belt. Maybe they will hear some more in the days that lie ahead.

In the fourth place, the new economics have made necessary increasing subsidies that add to the burden of debt

overhanging us. You men from the South where you produce cotton—am I talking to you? Look at the subsidy that will have to be paid this year to maintain cotton prices. And only one person will foot the bill. That is the American taxpayer. There isn't anybody else to foot the bill. We have put a load even too high for posterity to carry already.

Then in the fifth place, for all countries including our own, we have this situation under the new economics: The worst financial mess in economic history.

I have mentioned the American budget in passing. Ladies and gentlemen, as a man with a little background of economics, some 25 years of study and teaching in the field, the thing that is disturbing me most these days is not so much our unbalanced budget as the fact that there are nine or 10 unbalanced budgets in the world today. Canada's budget, the British budget, the French budget, the German budget, the Italian budget, the Rumanian budget, the Polish budget, the Japanese budget—every one of them is unbalanced. We have set the stage all over the world for the most cockeyed financial maelstrom the world has ever seen.

When somebody talks to you about our unbalanced budget, keep that thing back of your minds: That it is not merely an American condition, but a world-wide condition that may land us all in a whirlpool or a tornado from which nothing except complete collapse may eventually come.

Then in the sixth place these new economics have done this for us: Created a burden for us and for the world that must either be paid or repudiated. Think that one over—must either be paid or repudiated.

There is just one of two things that you can do with any debt. If the loan is paid, it can be paid in two ways. One way is by crushing taxation. The other way is by means of a capital levy in which government deliberately steps in as Germany is doing with the Jew and grabs. Wherever it can get a little accumulated savings, it can grab those savings, take them and apply them against the national debt. If it is paid it must be either by crushing taxation or a capital levy, or both. They are talking of the second one in England now. And if it is repudiated, well, what will it do to you and what will it do to your depositors? It will take us all on the same road.

In the meantime, in order to build up that load by means of deficit financing this is what we have done—and I am talking right to you men and women of American banks today: In the first place, deficit financing has meant decreased bank earnings. Am I talking your language? It has meant decreased bank earnings on the things you are compelled to buy and put in your portfolio. It has reduced the return on people's savings, so that the thrifty today get a lower standard of living than they used to get from return on their savings. It has increased the cost of life insurance and annuities by lower dividends or higher premiums and it has endangered the beneficiary of every life insurance policy and every annuity in America by the threat of possible inflation or repudiation of Government debts.

Are you telling that to your depositors and your customers? Why not do more of it? The evidence is accumulating that they are ready to listen to you. It is a story that needs to be told.

Then in the seventh place, the new economics have done this for us, and you might just as well look at them: It has helped in America to give birth to schemes that would bankrupt Utopia. Are there some of you from Colorado with your $45 a month constitutional provision? And you have nothing with which to pay it. Are there some of you from California where anything may originate, including $30 a week every Thursday? Are there some of you from States where alleged Republican statesmen got on the bandwagon to provide Utopia for old age? The new economics have given birth to schemes that would bankrupt Utopia.

Finally, look at this: The new economics were going to lead us into a new world, but they have failed to control the business cycle. They are not going to do that. Nineteen thirty-seven gave us the most disastrous and the steepest decline in business activity in six months that ever happened in the history of American economic life. In six months' time, our economic life went like that [indicating down] and we haven't recovered yet.

It has failed in a large measure to cure unemployment and it was to cure that and it was going to reduce the costs of government. It promised all of them. It promised us all the business cycle, it promised to wipe out unemployment and to reduce the costs of government. And look at us where we are!

Those are the things and I challenge you—I challenge anybody to refute them. Those are the things that the new economics have done for us. They have given us internationally a world at each other's throads, an opiate for enterprise, failure to maintain prices, increasing subsidies, the worst financial mess in all economic history; a burden that must either be paid or repudiated, schemes that would bankrupt Utopia and a complete failure to do the three main things on which we accepted the new economics; namely failure to control the business cycle, failure to end unemployment and failure to reduce the costs of government. Those are the incontrovertible facts about our situation.

There are so many things I think we need in times like these. I make these four suggestions to you and then I will sit down.

I think the first thing we need in these times, is the complete and final repudiation of economic nostrums. We did a reasonably good job last week but we will have to do a better one even yet.

I think the second thing we need, and I am speaking of the economics of it and nothing else (I don't care what your politics are) we need a return to financial sanity and fiscal integrity in government. Too long we have made excuses for the excesses of government finance. We need to return to financial sanity and fiscal integrity. We need to get back to the older idea that in a Government, just as in a household, it is a good thing to live within yourincome.

We need this in the third place—and frankly I am speaking public relations to you at this point: We need the education of the public to the inherent dangers in the situation for themselves. We have been talking for months and years about what will happen to banks and what will happen to other financial institutions. Well, what will happen to the customer of your bank? Why not tell him that it is not only the rich who are paying for our spree? Talk to him about the tax tokens I got in New Orleans and the tax tokens you get in Topeka and the milk bottle caps you used to get in Kansas City and what have you all over the country. If he can't see that he is paying for the new economics, he is dumber than I think he is. Why not tell him more and more of the same story? We need to educate the public to the inherent dangers to themselves in the system of economics that has come into practice.

Finally, gentlemen, we need this—and, Mr. Chairman, I dare to say this just because of my own background: I am an American, but I dare to say this to you bankers this morning: We need a new leadership in American public life. We need the leadership of intelligent and successful businessmen and bankers who will devote themselves to the public welfare and put that first.

We need a new leadership in American public life, composed of successful, intelligent businessmen and bankers who will devote themselves to the public welfare, knowing that if the public welfare is all right, their personal welfare cannot suffer.

If we look at the situation honestly and frankly the new economics have dug their own grave. If we have the sense to demonstrate that fact to the American public we can provide them real leadership for the years of the future.

COMMITTEE AND OFFICERS' REPORTS—STATE BANK DIVISION

Address of the President, Harry A. Brinkman, Vice-President Harris Trust & Savings Bank, Chicago, Illinois

In every large organization—business, trade or otherwise—it is always necessary that between directors' meetings or conventions the execution of policies and the making of decisions must devolve upon a comparatively few individuals. The State Bank Division is no exception to this rule. During the next few minutes I shall give you a brief report of the stewardship of your officers for the past year.

Until this year, our Board of Directors, that is our Executive Committee, was under frequent criticism not because of its quality but because of its small size in proportion to the membership of the Division and as compared to the Executive Committees of the other Divisions.

During the last year, this situation has been corrected and the Division has made a long step forward by the adoption of an amendment to its constitution providing for an enlargement of the Executive Committee from 6 to 12. Including the past President, the President and Vice-President, all members of the Committee ex-officio, this gives a working committee of 15, permitting representation which is not only more adequate from a geographical standpoint, but also more representative of the various types of banks which are members of the Division. Sub-committees have also benefited by this change by reason of the fact that their membership is made up, as far as practicable, of men who are likewise on the Executive Committee, thus facilitating the holding of meetings and the execution of policies.

In addition, we still have as an advisory committee that fine cooperative body of State Vice-Presidents who serve as points of contact for the 48 States. It is to be regretted that these men cannot be gathered together more often. It is the established custom of the Executive Committee to hold a joint meeting with this important advisory committee at the annual convention, but due to the fact that the conventions move in a circle around the country, it is extremely difficult to secure a large representation of these men at any one convention. Much remains to be done by future administrations to capitalize for the Division the latent talent of those important contact men.

Since our last Divisional meeting, the so-called "Boston Resolution" on branch banking was adopted. This resolution has met with the hearty approval of the great majority of the members of the Division. A few have criticized it on the grounds of lack of clarity but the large increase in membership of the smaller State banks during the year would seem to justify the conclusion that the position of the American Bankers Association on this important subject was satisfactorily clear to the great majority.

Just by way of interjection—the Membership Committee of the Association reports a net increase of about 517 members in the year ending Aug. 31, 1938. The net increase in the number of State banks during the same period was 339. In other words, the State banks produced over 66% of the new blood in the American Bankers Association this year. The largest gain was in the States of the great Central West which is the home of so many of the independent State banks.

The Division still stands strong in its fight for the continuation of the dual banking system and against branch banking of any kind across State lines. Furthermore, we shall continue to believe that the independent unit bank is the type of bank best suited to our American scheme. Although we recognize that in the final analysis the people of the several States must decide for themselves as to the type of banks they wish within their borders. Our chief concern is the maintenance of State autonomy on this question and while it is possible that the wish is father of the thought, it appears to your officers that the Boston resolution, combined with other developments of a more political nature, has been producing a gradual change in public opinion lessening, for the moment at least, the danger of Federal legislation for wider branch banking privileges. For confirmation of this point your attention is called to the failure of much legislation which would have been detrimental to the best interests of the unit bankers, such as the Executive Reorganization Bill, the McAdoo Bills, &c.

In the meantime, however, a greater danger has appeared in the growing propaganda for further centralization of all banking in the Federal Government. Take only one example, the suggestion (and so far it is only a suggestion) that the banks be required to carry 100% reserves against inter-bank deposits. This matter is referred to in the report of our Committee on Federal Legislation. It is obvious that if non-member State banks were required to carry their reserves with the Federal Reserve Bank, and the city correspondents could hold inter-bank deposits only if they carried 100% reserves against them, such business would have to be handled on a service charge basis if handled at all. The net result would be, to all intents and purposes, compulsory membership in the Federal Reserve System. There are somewhere between 6 and 7 billion dollars in inter-bank deposits in our banking system, and the application of such a law with consequent shifting of deposits would result in many dislocations which it is not necessary to dwell upon here. It should not be assumed, however, that the banks of the Central Reserve and Reserve cities would be the only ones to suffer for probably one-half billion dollars of such money is held by banks in what are classified as "country towns." It has been said, and with considerable justification, that the backbone of our independent unit banking system is the correspondent bank relationship. If this relationship is made unworkable through any legislation such as that just indicated above, it is self-evident that a long step will have been taken toward the federalization of all banks.

Another increasingly dangerous trend for the banking system as a whole is the tendency to consider that the business of banking is interstate commerce and that therefore Federal legislation regulating such commerce may be made to apply to all banks. Facts and figures so far prepared fail to substantiate this contention. By far the larger proportion of the business of banking is strictly intrastate. The danger, however, is nevertheless real. The centralizers are keen, resourceful and tireless. If the present trend keeps on, it is conceivable that the time may come when the purchase of a dozen eggs at a farmer's roadside stand may be considered interstate commerce; for it wouldn't be difficult to prove that the ancestor of the hen that laid the eggs was at one time or another transported from some other State. This battle against the centralization of banking control is not an imaginary one even in these days of anti-monopoly investigations.

Once again it should be stated that this Division favors voluntary and not compulsory membership in the Federal Reserve System and is on record for the repeal of the provision of the Banking Act of 1935 which provides that all State banks with average deposits of over $1,000,000 in 1941 shall become members of the System by July 1, 1942. The Committee recommends legislative action at an early date.

Before we move on, a few words more about membership. Membership in the American Bankers Association at present includes about 8,000 of the 10,000 State-supervised banks in the country. About 6,200 of these 8,000 banks are active members of this Division. It should be emphasized here that a bank joining the American Bankers Association can become an active member of only one Division but may be an associate member of one or more of the other Divisions. Banks are entitled to vote only in the Division of which they are active members. We have in this Division, for instance, 513 banks which are active members in the Savings, Trust or National Division and many State banks active in this Division are associate members in other Divisions. This provision of the constitution is called to your attention now so that you may all have it in mind to invite and urge all new State bank members to associate themselves with the active membership of this Division. In matters of legislation the larger the percentage of active members, the greater the influence of the Division. Numbers talk!

Many a lesson may be drawn, and many a speech written on the picture portrayed by the 7th annual survey of the Condition and Operation of State Banks which has recently been released by our Committee on State Bank Research. If there were a question in the mind of any one as to the desire of the public for the State Banking Systems, or as to the confidence which the people have in these systems, he has only to refer to that report to have the question answered. He will there note that as of Dec. 31, 1937, the 10,119 State supervised banks held a total of $32,193,000,000 of deposits, or approximately 55% of the bank deposits of the Nation. The actual increase in deposits of State banks in the 5 years was over 7 billion dollars, or around 28%.

An artist with the pen might draw an impressive picture of these thousands of banks, large and small, serving millions of American citizens in all walks of life in communities of every conceivable size and type that American initiative has built between the two oceans.

Other detailed comparisons and ratios printed in the booklet published by this Committee are extremely interesting and valuable, and the book easily merits a place on the desk of every managing bank officer in the country.

That the competition from Federal agencies for both loans and deposits continues to be more and more of a factor in the business of the banks is brought out in the report of the Committee on Federal Banking Agencies. There is plenty of evidence that the banks are making strenous efforts to attract all types of loans which may be considered proper banking loans. And bankers of the country are not asleep on this important question. Neither are they inclined to forget that the time may again come when the depositor will wish his money and will wish it quickly. The bankers cannot levy taxes to replace losses arising from unsound loans. Each bank will have to be its own judge as to the proportion of the slower or long term type of loan or investment which it can safely carry, having in mind always the amount of its capital, the nature of its deposits and the temperament of its clientele. Competition from Federal Savings and Loan Associations has become increasingly acute and in many sections actually unfair. Building and Loan Associations are old American institutions and have a proper place in our economy but their function is different from that of the banks, and the patrons of both banks and associations should know these differences. It is to be hoped that some method can be agreeably worked out whereby competition from this source may be kept within its proper sphere. Special committees are at work on this problem, and it is hoped that reports of progress will soon be forthcoming.

After years of research and theorizing, trial and error, the problem of a satisfactory public relations program is still before the bankers. Newspaper and billboard advertising, radio broadcasting and public speaking, direct mail and all the other means of publicity used by industry have been tried by bankers and each has its advocates. However, a Public Relations plan which effectively meets the needs of all bankers has yet to be invented. So far nothing has been developed which excels the slow, old fashioned way of building up community confidence and respect through integrity, square dealing and good management.

In the past year our Committee which handles this phase of the work concentrated on the preparation of a series of talks to be delivered by bankers themselves to local gatherings of various types.

A good deal of publicity has been given during the last year to the conferences of the various examining agencies of the country for uniformity in reports and in classification of assets. It is a little too early to determine just what the actual results of the reported agreement may be, but our Committee on State Banking Departments approves the progress made to date with the following comment:

> "Uniformity in classification of assets by examiners is very desirable, provided it does not encourage too lenient a policy which in time to come might prove disastrous."

The Committee then recommends that the Division continue efforts to bring about further unification in report and examination forms until a more common ground has been reached.

The Division is 100% for a sound bank chartering policy and this Committee, which has been keeping in very close touch with developments, recommends a continuation of the efforts to bring this about. It urges all States to enact such legislation as will give to a non-partisan board the right to make investigation as to the needs and possible success of a new bank, and authority to grant and refuse charters.

It further makes a plea for opposition to any plan which might divest the State Supervisors of any supervisory powers which they now have over State banks in their respective States. Certainly a report like this must have the full support of every thinking member of this Division.

While this has been an off year as far as meetings of State Legislatures are concerned, nevertheless our Committee on State Legislation has been one of the most active committees.

One bit of legislation to which this Committee devoted its attention, because of its direct connection with State legislation, was House Bill No. 7187 which amended the Federal Reserve Act by providing that the Federal Deposit Insurance Corporation may waive its right of subrogation for the superadded liability on State bank stocks as far as insured deposits are concerned. The adoption of this amendment at Washington did not receive the publicity which it deserved, probably because of the fact that its terms apply only to some 9 or 10 States which still have double liability on State bank stocks.

At this point it is proper to observe that on Nov. 8 four States, Illinois, Nebraska, Oregon and West Virginia, voted on the question of amending their constitutions so as to repeal the provision for double liability on State bank stocks. Unfortunately the proposition carried only in the States of Nebraska and West Virginia. It was apparently defeated in Oregon and in Illinois. In Illinois a majority was recorded for repeal but the proposition lost due to the provision of the constitution which requires that a majority of all votes cast at the election must be in favor of a proposed amendment. This is a severe blow to the State Banking System of Illinois where the deposits in State banks aggregate over $1,125,000,000 and Oregon where they are over $38,000,000.

There are now remaining only seven States in which the double liability provision is still in effect and in some of these, repeal legislation is pending.

Now just a few words regarding business and economic conditions which, of course, will be commented upon much more completely by officers and Commission Chairmen at the general sessions of this convention. Unpleasant though it may be, it is the duty of bankers at every opportunity to call to the attention of the public the dangerous road which our country is traveling. Politics have no place in an organization of this kind. Proper economics have. It has been popular to say that the bankers did not warn the Nation of the approaching crash prior to 1929. Let it not be said in 1948 that the bankers did not warn of the dangers of the reckless spending of borrowed money in this present decade. These warnings have already been so numerous and so loud that the public ear seems to have been dulled. The majority of the voters and the popular leaders in Government no longer seem to worry about the unbalanced budget nor the tremendous burden that taxation has loaded, and must continue to load upon every one of us.

Possibly the viewpoint of a foreign nation on this important subject may therefore be worth quoting. From the annul report of the Central Bank of the Argentine Republic for the year ending Dec. 31, 1937, as published in the Federal Reserve Bulletin, I quote the following:

"It must not be forgotten, however, that in this problem of credit expansion, a budget deficit plays a role of preponderant importance. The introduction to the Central Bank Law clearly expresses that 'If the State meets its expenses by resorting to bank loans it brings about a growth in the media of payment (whether it be in notes or deposits) which is not justified by a corresponding development in business. Such a proceeding, therefore, places on the market an additional volume of purchasing power which formerly did not exist. And if this increase is on such a scale that new savings entering the banks, and which are not used for new loans, are insufficient to counterbalance it, an inflationary movement with all its notorious and pernicious effects is not long in starting.'

"The Nation has managed to suppress its deficit after a great and sustained effort. To maintain a balanced budget and avoid deficits in the provinces and municipalities is a matter of vital importance for the future soundness of the monetary system."

This statement coming from a nation so far removed from us must be given the weight of unbiased judgment. It should be an incentive to the bankers in this country to continue their battle against the terrific waste and profligacy in Government. The duty is not a pleasant one, but no other group of our citizenry is better fitted by training and experience to head this fight.

In conclusion, it is my conviction that the State banks will continue to occupy an important place in our economic fabric. In a sense they are one of the last strongholds of those who believe in the rights of States to control certain functions within their borders. It must be recognized that there are in public life many patriotic and wellmeaning citizens who believe that the future well-being of the country demands that all financial institutions be brought under one control regardless of State lines. With these misguided individuals I cannot agree. To me it is clear that if the efforts of these gentlemen to secure control of the State banks are successful, State sovereignty as we now know it will receive an irreparable blow and we shall be witnessing a complete change from the conception which our forefathers had of the *united states* of America. The State Bank Division, from this point of view, becomes more than an organization of State banks—it becomes, to those who cling to these long cherished ideals, a patriotic organization for the preservation of the American type of democracy.

Report of Committee on Resolutions—Reaffirms Adherence to Principles of Dual Banking System—Opposed to Branch Banking Across State Lines—Also Opposed to Compulsory Membership in Federal Reserve System

President Brinkman: We will now have the report of the Committee on Resolutions. Mr. Bryant, are you ready to report?

H. A. Bryant (Parsons Commercial Bank, Parsons, Kan.): The Committee on Resolutions in preparing this report first of all endeavored to make it brief. I hope you will agree with that part of the report. In formulating the report we have given each subject a heading. I will read the topic and the heading and ask for your consideration on each section.

Resolution on Dual System of Banking

First, "Dual System of Banking and State Autonomy. We vigorously restate our firm adherence to the principle of the dual system of banking and State autonomy."

Mr. President, I move the adoption of that section.

President Brinkman: Is there a second to the motion? [The motion was duly seconded and carried.]

Resolution on Branch Banking

Mr. Bryant: "Branch Banking. We again go on record as being vigorously opposed to any extension of branch banking across State lines directly or indirectly."

Mr. President, I move the adoption of that section. [The motion was duly seconded and carried.]

Resolution on Compulsory Membership in Reserve System

Mr. Bryant: "Compulsory Membership in Federal Reserve System. The Banking Act of 1935 provides that all nonmember State banks with deposits of $1,000,000 or over be required to join the Federal Reserve System after July 1, 1942, or surrender their membership in the Federal Deposit Insurance Corporation.

"It is the continued judgment of the members of the State Bank Division of the A. B. A., which Division represents more than 6,000 State banks in the country, that that requirement is unjust. It is the sense of this body of State banks that membership in either the Federal Reserve System or in the FDIC or in both should be optional to be determined by each bank itself in accordance with the benefits that it may be able to see will be rendered to it by either or both of those federalized agencies. Membership in either the Federal Reserve Systems or in the FDIC should be made so inviting that applications for membership will come voluntarily from the bank rather than through compulsion or coercion of a Federal law. We exhort the officers and (or) legislative committee of the State Bank Division working upon their own behalf and enlisting in any manner as they may deem best the support of other Divisions or officers and committees of the A. B. A. as well as officers and committees of the several State Bankers Associations throughout the country to jointly work for a complete repeal of that compulsory provision of the 'Banking Act of 1935'."

Mr. Chairman, I move the adoption of that section. [The motion was duly seconded.]

B. F. Clark (Colorado State Bank, Denver, Colo.): Mr. Chairman, I would like to stress at this time the importance of the section to the State Bank members here who are situated as we are, having a small institution in a large city. We are 30 years old. We have our capital set-up. We have increased our capital to meet the requirements of the Federal Reserve and we have no desire to be a member of the Federal Reserve. It is not necessary. I take it that it is a good time to start thinking about the importance of this particular subject. We should be ready to assist in the passage of some law that will repeal that, which is greatly to the detriment of banks situated as a great many of us no doubt are.

Member: Mr. Chairman, let's have a rising vote on that.

James N. Kehoe (Bank of Maysville, Maysville, Ky.): I share with the gentleman on my right the proposition that it is time the bankers constituting this Division of the American Bankers Association were doing a little more than "resoluting." I think we should get ready an organization to stop this national legislation that only undertakes to control State banks and State affairs. I don't know how many State bankers are members of the Executive Council of the American Bankers Association. I am a member of it and I would like to get in touch with the members of that committee who are members of the State Bankers Association. I think it is time that we who are so vitally concerned should organize ourselves and go beyond the mere parlance of resolutions and carry out the ideas embraced in these resolutions. I therefore suggest that the members of the State Bank Division who are members of the Executive Council of the American Bankers Association get together . Let's see if we can get some real action on this proposition. If you are going to allow it to go by resolution only, there will be nothing beyond good will expressed for you. Gentlemen, the bankers of America have been taking too much lying down. They have to fight and I am for a little fight.

[George E. Lewis, Lewis State Bank, Tallahassee, Fla., spoke in favor of the resolution.]

President Brinkman: Is there any further discussion on this section of the resolution? Those in favor of adopting it will rise. [The great majority rose.]

President Brinkman: I do not think it is necessary to count. We will take the "nay" vote. Those opposed to this section of the resolution will please rise. It is unanimously carried.

Resolution on Wages and Hours Act

Mr. Bryant: "Wages and Hours Act. The Bank Management Commission has made a survey of a cross section of banks over the United States which shows that the services rendered by these banks is overwhelmingly intrastate, therefore, the State Bank Division claims exemption under the Wages and Hours Act as provided by said Act which exempts those institutions whose business is predominately intrastate, and recommends that the General Counsel for the American Bankers Association file a supplemental brief with Elmer F. Andrews, Administrator, setting forth these facts, and reiterating the further fact that banks are personal service institutions."

Mr. Chairman, I move the adoption of that section. [The motion was duly seconded and carried.]

Resolution on Social Security Act

Mr. Bryant: "Social Security Act. Because of the inconsistency of the Social Security Act as applied to banks, we believe that all banks should be on an equal basis under the Act, and recommend an amendment to the Act to give recognition to approved private pension plans."

Mr. President, I move the adoption of that section. [The motion was duly seconded.]

President Brinkman: Is there any discussion of that section?

J. H. Nelson (Peoples Bank & Trust Co., Minden, La.): What is meant by "all banks should be on an equal basis"? Just what do you mean by that?

President Brinkman: I think the answer to that question is that no one knows at this moment just what the results will be. The tendency in Washington seems to be to include a larger number of workers—employees of corporations of the country—under the Act, rather than a smaller number. It therefore looks as though it would be impossible to have the nonmember State banks eliminated from the provisions of the law. If that is true—and that is the best judgment of those who have studied this situation—the natural result would be the inclusion of the national banks and the Federal Reserve member banks under the provisions of the law. At this moment I don't believe anybody can answer that question finally. It will be discussed this evening at the meeting of the Executive Council of the American Bankers Association, inasmuch as both national and State banks are interested in this matter. The policy of the Association will be formulated at that time and presented to the convention at the proper time later in the week. I believe that is all that can be said on the subject at this particular moment.

Mr. Nelson: I thought everybody came under Social Security, National and State. I understood the resolution made them equal. Isn't that what the resolution says?

President Brinkman: Yes, but the Commissioner of Internal Revenue ruled that National banks and members of the Federal Reserve Bank were instrumentalities of the United States Government and were therefore exempt from the Social Security Act and those banks therefore have not been paying the tax.

All in favor of this section of the resolution will say "Aye"; contrary, "No." It is carried.

Resolution on Government Ownership of Reserve Banks

Mr. Bryant: "Government Ownership of Federal Reserve Banks. The proposal for the ownership of stock of Federal Reserve banks by the Federal Government is a further step in the direction of governmental control and management of our banking system. We are opposed to the proposed transfer from private ownership to governmental ownership of the Federal Reserve banks."

Mr. Chairman, I move the adoption of that section. [The motion was duly seconded and carried.]

Resolution on Amendment to Clayton Act

Mr. Bryant: "Amendment to Clayton Act. As it is clearly not in the public interest to deprive banks of the services of valuable directors under the prohibition contained in Section 8 of the Clayton Act, we recommend an amendment to Section C of said Act eliminating the time limit in which directors may serve on the boards of two financial institutions."

Mr. Chairman, I move the adoption of that section. [The motion was duly seconded and carried.]

Resolution on Lending Policies

Mr. Bryant: "Lending Policies. The lending policies of the banks are vitally important in the development of the commerce and industry of the Nation, and these policies, at the present time, are directed toward making all possible loans consistent with the sound handling of the funds belonging to the millions of bank depositors. The banks are commended for their constructive program of speeding the flow of bank deposits into loans to commerce, agriculture and industry to the fullest extent consistent with their responsibilities as custodians of the deposits with which they are entrusted."

Mr. President, I move the adoption of that resolution. [The motion was duly seconded and carried.]

Resolutions of Appreciation

Mr. Bryant: "We express our deep appreciation to President Harry A. Brinkman for the outstanding manner in which he has performed his duties this year, and for the results achieved which will contribute to the lasting benefit of American banking and particularly to the State banks.

"We further express our thanks and appreciation to Secretary Frank W. Simmons for his long and faithful service to the Division, and for the way

he has devoted himself unremittingly with unusual fidelity to the solution of difficult problems."

Respectfully submitted, Committee on Resolutions,

Harry A. Bryant, President, Parsons Commercial Bank, Parsons, Kans., (Chairman.)

Frank C. Welch, President, Peoples Savings Bank, Cedar Rapids, Iowa.

A. L. M. Siggins, President, Bank of Hartsville, Hartsville, S. C.

Mr. Bryant: I now move the adoption of the entire report, Mr. President.

President Brinkman: I think it is in order. Does somebody want to second the motion?

B. F. Clark (Colorado State Bank, Denver, Colo.): I second the motion.

President Brinkman: Is there anything else to be said in connection with these resolutions before we put the adoption of them in toto to a vote? If not, all those in favor of adopting these resolutions as read will say "Aye"; opposed, "No." They are adopted.

The Resolutions Committee consisted of Mr. Bryant, President of the Parsons Commercia lBank, Parsons, Kan., as Chairman; A. L. M. Wiggins, President of the Bank of Hartsville, Hartsville, S. C.; Frank C. Welch, President of the Peoples Savings Bank of Cedar Rapids, Iowa.

Report of Committee on Nominations

President Brinkman: We will now have the Report of the Nominating Committee.

Fred B. Brady (Commerce Trust Co., Kansas City, Mo.): The Committee on Nominations begs to submit the following report:

President—H. W. Koeneke, President Security Bank of Ponca City, Ponca City, Okla.

Vice-President—Wm. W. Elliott, President Bank of Canton, Canton, Ga.

Executive Committee—Term expiring 1939: Harry A. Bryant, President Parsons Commercial Bank, Parsons, Kan.; T. R. Frentz, Cashier New American Bank, Oshkosh, Wis.; Albert S. Puelicher, President Marshall & Ilsley Bank, Milwaukee, Wis. Term expiring 1940: F. G. Addison, Jr., President Security Savings & Commercial Bank, Washington, D. C.; Charles H. Laird Jr., President Burlington County Trust Co., Moorestown, N. J.; Frank C. Welch, President Peoples Savings Bank, Cedar Rapids, Iowa; A. L. M. Wiggins, President Bank of Hartsville, Hartsville, S. C. Term expiring 1941: John B. Byrne, President Hartford-Connecticut Trust Co., Hartford, Conn.; James H. Penick, Executive Vice-President, W. B. Worthen Co., Bankers, Little Rock, Ark.; Otto Kotouc, President Home State Bank, Humboldt, Neb.; John T. Bohr, President Toledo Trust Co., Toledo, Ohio. To be elected for one year: L. C. Palmer, President Citizens State Bank, Arlington, Wash.

I move, sir, the adoption of this report. [The motion was duly seconded.]

President Brinkman: Are there any other nominations from the floor? [There were calls for the question.]

President Brinkman: All in favor of the adoption of this report say "Aye"; contrary the same sign. In order to make this thing strictly legal, however, I think somebody should move that the Secretary cast the unanimous ballot of the meeting for the men whose names were read. [The motion was duly made and seconded, put to a vote and carried, and the officers installed.]

The members of the Nominating Committee were Mr. Brady, Vice-President of the Commerce Trust Co., Kansas City, Mo., Chairman; Sennett Kirk, Cashier, Garnett State Savings Bank, Garnett, Kan., and Felix McWhirter, President and Chairman of the Board of the Peoples State Bank of Indianapolis.

SAVINGS DIVISION

AMERICAN BANKERS ASSOCIATION

Thirty-Seventh Annual Meeting, Held at Houston, Texas, Nov. 16, 1938

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The Savings Banks and the Railroads

By FAIRMAN R. DICK of Dick & Merle-Smith, Investments, New York City

The address on the above subject was presented by George M. Grinnell, owing to the inability of Mr. Dick to be present at the Convention. President Sherman of the Division, in indicating this, said:

We were at the moment much disappointed to find that Fairman R. Dick at the last moment couldn't get away, that something had happened. On meeting Mr. Grinnell, whom I am going to introduce to you in a few minutes, my disappointment was mitigated very much. Mr. Grinnell is a partner in the firm of Dick & Merle-Smith. He is going to speak on the same subject of railway investments that has been bothering us so much in the last few years, and I think we are really very fortunate to have Mr. Grinnell talk to us tonight. It gives me very great pleasure to present to you, therefore, George M. Grinnell who will tell us about that worrisome question of railway investments.

Mr. Grinnell, responding, said:

I want to thank you for your very kind introduction. Mr. Dick has asked me to express his regrets at being unable to be here himself tonight to talk to you about the railroad situation. He has asked me to take his place and give you his views, as he and I see eye to eye on this subject.

The address follows:

In speaking before this same body last March, I sought to point out the political imponderables which were rendering solution increasingly difficult for what seems to be our perennial railroad problem.

At that time I described how the railroads were caught between vast social and political forces which have been progressively destroying their earning power. In the last year the operation of these forces has been graphically illustrated. You have seen just recently that the Fact-Finding Board appointed by the President denied the petition for a downward adjustment of wages in conformity to present railroad rates, and just previously the Interstate Commerce Commission denied an upward adjustment of rates to conform to the present wages. As investors, I do not feel that we are qualified to pass on the merits of either of these decisions, but one thing is certain and that is, if the rates are correct, then the wages are too high, and contrariwise, if the wages are correct, then obviously the rates are too low.

There is a possibility, of course, that both the Interstate Commerce Commission and the Fact-Finding Board are right and that the maladjustment between rates and wages is not due to governmental control in any form but to the weakness of the industry itself, which has now reached a status so unessential as to be unable to compete, under the prevailing level of wages. Time does not permit elaboration of this phase of the problem, but I should like to point out that if it is a fact that the railroads are so weak that the competitive factors prevent the industry from collecting adequate revenues, then why, in heaven's name, should they be any longer regulated? If this were really true, the answer is simple: turn the railroads loose to sink or swim as best they can. The obvious opposition which such a proposal would immediately arouse is the best evidence that the railroads are, in fact, still absolutely essential. In spite of all talk of competitive agencies, the simple fact remains that, throughout the depression, the railroads have carried, per capita to the population, more freight than they carried between 1900 and 1907—the peak era when they were regarded as the strongest industry in the world.

In the dust cloud of words raised by various special groups, each intent on protecting its own interests, the basic fundamental in the railroad problem constantly tends to be lost sight of. Reduced to its essential terms, the issue is simple. Railroad rates can no longer be determined solely on some remote and abstract basis called the "public interest"; they must be related directly also to railroad costs, which are nearly 50% wages of labor. To clarify the problem, let us eliminate for the moment the $25,000 investment per worker in the railroad plant and assume that the transportation is carried on solely by manual labor. Under such conditions it is easy to see the confusion that arises when one branch of the Government decides that $3 a day is a reasonable rate for the shipper to pay for the transportation furnished by one man, while another branch decides that the proper wage for that man is $5 per day. Until this discrepancy between wages paid and the revenue available for them is brought into substantial balance through some uniformity of policy within Government agencies, which concedes that a continuous flow of new capital is needed for modernization, and recognizes that earnings must be adequate to attract this flow of capital, the railroad problem cannot be solved.

I wish to make entirely clear at this time that this statement of my views in regard to social and political forces which have operated to destroy railroad earning power must not be understood to mean that I place the blame for this disaster upon any specific group or combination of groups. Quite the contrary, it is my opinion that we are all equally to blame for the breakdown that is now manifest in the system of private ownership under public regulation as it has been applied to the railroad industry. In other words, I do not agree with those who have placed all the blame for this breakdown on the Government in general and the Interstate Commerce Commission in particular, nor do I agree with those who place all the blame on the incompetency of railroad management. I do not share either of these extreme views. There has been too much name-calling and stone-throwing; not enough realistic study of the problem itself. Investors, confronted with constantly shrinking values, have hurled their own rocks at railroad executives and regulatory authorities. The executives excuse themselves by tossing a few stones at public officials and the recalcitrance of shippers. The shippers, not to be outdone, lay down a barrage aimed equally at executives, investors and railroad labor. When everybody is blaming somebody else, obviously it is difficult for any person or any group to think objectively.

The plain fact of the matter is that the real test before democracy today—a problem which has not yet been solved—is how to reconcile the principles of private ownership with social control inherent in regulation by public agencies. We have not yet established that important line of demarcation between these two separate and necessarily conflicting sets of rights. Despite 50 years of experiment, government has not yet learned how to regulate industry without sapping its vitality or threatening its ultimate destruction through financial attrition. But here again, I want to make it clear that I am not assessing the major portion of blame for the disaster on the Government. The main weakness would seem to have arisen from the failure of industry to effectively educate and guide the public authorities in the complex problems of management.

It may make my meaning somewhat clearer if I point out that the problem of public regulation and private ownership is two-fold and comprises the relationship of two groups. The importance of this relationship between the public and private groups extends far beyond the railroad field and now reaches all corporate enterprise. No one has better grasped this change in conditions which today confront all industry than B. M. Baruch, when he recently declared:

> "In the industrial East, at least, individual initiative had begun to merge into corporate collectivism around the end of the 19th Century, attaining its fullest effect in the decade following the World War. It has long since replaced the older capitalism as the dominant force in our economic life.
>
> "Naturally, there is only one means of controlling this collectivist growth in corporate enterprise. Government regulation must be extended to a direct proportionate degree.
>
> "This is a sine qua non which business must accept."

The railroads, having been the earliest and the largest form of corporate enterprise in the country, were first to encounter this problem of regulation; and, for the future of all industry, the railroads must solve that problem. Unless a formula can be devised by which private ownership in transportation can be reconciled with some constructive form of regulation, then there would appear to be no alternative other than to embark upon State capitalism or State socialism on a grand scale. It will be witnessed first in the railroads; next, let us say, in the utilities; then in steel, and so on down the line through the major branches of large-scale industry.

We can neither isolate the problem nor build a Chinese Wall around it. We cannot abandon the railroads and leave them to whatever fate has in store. If the system of free enterprise under public regulation is to survive in this country, it is essential that the issue be squarely faced where it is now joined—that is, in the railroad industry.

Now, in any evolution toward State capitalism, the investor's ox is usually first to be gored. His interests are always subordinated when State regulation of industry begins. Politics being what it is, human rights are proclaimed as having precedence over property rights. Quickly the politician discovers that the investor can be treated with impunity. In most European countries, and to a lesser extent in this country, the investor, unable or unwilling to protect his own interest, has become the "forgotten man."

Passive as is the investor's role, his position nevertheless reaches to the very heart of our present problem for the simple reason that without additional supplies of funds from the investor, private ownership cannot continue. There is no denial of this fact in any intelligent quarter. This principle has been repeatedly affirmed and reaffirmed by the Interstate Commerce Commission, and nowhere, probably, with greater force than in the O'Fallon decision of 1927 and repeated in later decisions, where it is stated:

> "Such a system (national railroad transportation system), so long as it is privately owned, obviously cannot be provided and maintained without a continuous inflow of capital."

It is seen, therefore, that the problem of continued private ownership of our railroads depends on the willingness of we investors to again buy

railroad securities. Our failure to buy these securities today has produced this present emergency. It is as yet a credit emergency and not a physical breakdown of the railroad plant. This being the case, it would seem to be of the utmost importance for us to define clearly and plainly the conditions under which we will regain confidence in the railroad industry and again purchase railroad bonds.

Before we become involved in the details of what the earnings of the railroads must be, let me briefly review the characteristics of bonds which are regarded as suitable for trust funds. To a savings bank or insurance company, the prime requirements are regular payment of interest and maintenance of reasonably stable market prices. Demands of depositors or policyholders for their funds must be met instantly. These demands obviously cannot be satisfied by payment in defaulted or depreciated railroad bonds. Once the element of more than normal risk arises with regard to such securities, they are no longer suitable investments for trust funds. And when conservative institutions view what were formerly prime bonds as being too speculative, private investors are inclined likewise to adopt the same viewpoint. The result is a gradual attrition and breakdown of railroad credit.

Unless a renewal of this supply of private capital for the railroads can be soon reestablished, private ownership will be at an end. Indeed, the very sine qua non of continued private ownership is maintenance of credit conditions which insure a continuous supply of fresh funds. Failing this, there is no way to maintain railroad transportation agencies except out of Government funds, which means, of course, Government ownership.

Now let all of us ask ourselves whether we have really discharged this primary obligation which seems to rest on us. Have we laid down for the Interstate Commerce Commission, for the Reconstruction Finance Corporation, or other public agencies which exercise regulatory control over the carriers, our views as to basic earning requirements for the industry as a whole? Have we ever determined, even for our own guidance, the minimum earning needs essential to a thorough rehabilitation of railroad credit? Have these requirements been put in such clear and unmistakable terms that neither the railroads nor governmental agencies nor the general public could fail to thoroughly understand them?

Once such a course is taken, the railroad problem will be greatly clarified. Then it will be clear, both to the shipper and to the public, what the price is for continued private operation of our railroads. As conditions are today, we are drifting into Government ownership without knowing how or why, largely because we investors have not as yet made clear the conditions under which private ownership can continue. Personally, I can see no evidence of any demand for Government ownership. The greatest danger in the whole situation today is the refusal of the public to pay the full cost of railroad transportation, not because they are unwilling to pay this cost, but because they do not know what it is. If we investors will do our duty in making clear what this cost is, private ownership can be saved. If we fail to do it, the decision will be taken by default.

I need not recall to you that Section 15-A of the Transportation Act of 1920, since repealed, sought to erect a standard of adequate earnings for the railroads taken as if they constituted a national system. That attempt failed for reasons which are obvious when the proceedings of the Interstate Commerce Commission are examined for the period from 1920 to date. In the O'Fallon case, decided in 1927, the Commission declared that the level of earnings required to attract new capital funds cannot be determined effectively by a mere mechanical formula based on either a percentage of return or a finding of value. In other words, adequacy of earnings is directly related to the inflow of capital to the industry, which in turn means the purchases of railroad securities by investors. A large proportion of this capital has been obtained from large fiduciary institutions such as savings banks and life insurance companies. If the earnings are such as to satisfy the requirements of these institutions, of course they will be eager to again buy bonds as they have done in the past. If, however, the earnings are such that the bonds must be regarded as speculative, obviously they will not be bought at any price.

These fundamentals have been repeatedly confirmed in recent decisions of the Interstate Commerce Commission, including the so-claled Splawn report. The basic requirement laid down is that a railroad must be able to attract new capital without, in so doing, weakening its capital structure. Railroad financing must avoid increasing the fixed-interest burden by piling up a new debt through borrowing. There must be proper proportion between bonds, stocks and other non-fixed-interest securities. A few lines of the Splawn report concisely state this principle:

"Unless earnings are sufficient to make stock attractive to investors, railroads will be forced to do all their financing by borrowings, thus recreating the burden which the bankruptcies are reducing and eventually putting a stop to financing."

Now that I have tried to make clear what the primary function of the investor is in solving this problem, namely, a lucid exposition as to the level of earnings that is required, let us turn for a moment to rhe reorganization cases in which so many of us unfortunately are involved, and let us see if in these proceedings you have effectively performed your function. In going over most of the reorganization plans which have been filed in recent years, I can find no evidence as to what our requirements are. Quite the contrary—these plans proposed by us seem to proceed on the assumption that earnings are likely to continue wholly inadequate. They further seem to assume that either we, or other investors, will continue to supply new funds under such conditions. Nowhere have I been able to find any statement as to the positive requirements necessary to the rebuilding of sound credit conditions.

Let me try to explain what I mean. We shall take, for example, an hypothetical road and apply the principles which I have outlined and which have been so emphatically confirmed by the Interstate Commerce Commission, and experimentally determine what an adequate level of earnings must be. Suppose, for example, that in reorganization it is determined that a sound capitalization required the scaling-down of the fixed debt of the road to a ratio of 25% of sound investment. This ratio having been determined to be sound, obviously it should not be impaired by future improvident financing. In other words, the maintenance of this sound ratio limits the bonding of improvements to 25% of their cost. Let us assume that these bonds will attract investors at a 4% coupon. Then let us further assume that an additional 25% of the cost of improvements can be obtained by selling income mortgage bonds, through which medium funds from investors may be attracted with an interest return of 5%. We can further assume that an additional 25% of the funds needed for modernization can be obtained by selling preferred stock with a dividend rate of 6%, and that the balance of 25% can be obtained from excess earnings and sales of common stock at par, where the risk factor would probably require an 8% dividend and therefore probably earnings of 10%.

Financing a railroad by this method can in the long run be accomplished without distorting or weakening the capital structure, provided, of course, that earnings are adequate. Having constructed this hypothetical case, we can now determine what the level of earnings must be. To do this we merely take 4% on the fixed-interest bond, 5% on the income bond, 6% on the preferred stock and 10% on the common stock, and add them all together, which gives us a total of 6¼% on the total investment. If, over the long term, this road can average 6¼% on its investment, it may be assumed, to paraphrase the words in the Splawn report, that these earnings will be sufficient to make the stock attractive to investors and thus, again paraphraising the Splawn report, the road could avoid recreating the burden which the bankruptcies are reducing and eventually putting a stop to financing.

Now, let us contrast this sound proposal with the usual proposal that is put forward under pending reorganization plans. I can point out many instances where, after scaling debt to a low figure, it is proposed to raise new money for improvements by issuing permanent bonds at 75% of the cost. This is the course of action which the Splawn report characterizes as one which will eventually put a stop to financing. It amounts, in short, to committing financial suicide. To scale one debt in order to pile up another burden not only fails to solve the problem but so disguises the essentials of the problem that they cannot even be recognized.

There is still another way in which, in many reorganization proposals, inadequate earnings are disguised. Many of these plans contain provisions which permit the issuance of additions to the permanent fixed debt if earnings are one and one-half times interest charges. This provision is popularly assumed to safeguard the investor so that when this requirement is met, the public will naturally believe that the credit status of the road is satisfactory. Now let us look at the matter a little closer and see whether, from a long range standpoint, the credit status of the road will be really satisfactory when this requirement is met. I have pointed out for my hypothetical road that earnings of 6¼% on the sound investment in plant is a necessary basis for sound credit conditions. However, I will be a little more conservative in my demands and assume that the 5¾% formerly determined by the Commission to be adequate is correct. It makes little difference which figure I take, because when I figure one and one-half times interest charges on a first mortgage bond outstanding at 25% of the sound investment, I find that it requires only 1½% on the investment to produce these earnings.

The question thus raised goes directly to the heart of our problem. How are the public, the shippers or the Government ever to be persuaded that 6% or 5¾%—as established under Section 15-A—are necessary to maintain credit for the industry as a whole when we, the investors, indicate that we are satisfied with earnings of only 1½%?

I am convinced that no sound solution of the railroad credit problem is possible so long as the public is led to believe that sound credit conditions can be restored regardless of earnings, or that fiduciary institutions will continue to supply new money under conditions which contemplate the repetition of past mistakes and further eras of bankruptcies.

There is just one other point to be considered here which, to my knowledge, has not yet been passed upon by the regulatory authorities. It has been thoroughly established that sound credit conditions require, at periodic intervals, sales of stock in order to maintain a properly-balanced capitalization. It is further pointed out that this requirement does not apply, of course, to stock which represents "water," but must be limited to stock representing sound investment values. To this qualification I heartily agree, but I wish further to point out that there is another easy method of obtaining money below cost by scaling capitalization far below sound investment values. Scaling capitalization below investment in order to sell stock is merely a method of watering stock. By this method, capitalization is increased faster than investment. Let me give you one final example.

During the depression the New York Central paid off $60,000,000 in bonds through conversion into stock. This financial operation met with wide approval. While I also approve it, it has been my impression that few investors fully appreciate the weakening of the New York Central capital structure which such procedure entails. In order to facilitate the operation, the stock had to be changed from $100 par to no par and the Central was then compelled to issue $150,000,000 of stock (in terms of the old $100 stock) in order to pay off $60,000,000 of bonds. In other words, the stock capitalization was diluted by 30%. If the same rate of dilution is necessary the next time the New York Central wishes to pay off $60,000,000 of bonds, they will have to issue $195,000,000 of stock. The third $60,000,000 will require $253,000,000 additional stock, and the fourth $60,000,000, $329,000,000. In other words, to pay off $240,000,000 of bonds, the Central will have had to issue $927,000,000 of stock. To restore the capitalization of the New York Central to the same relation to its property as before these operations, it would be necessary to plough nearly 700 million dollars back into the property.

I am giving you these figures just for purposes of illustration. Obviously, I am not suggesting that the New York Central is going to pursue any such suicidal policy. This illustration is merely to show clearly the result of a policy of obtaining new funds by diluting stock in relation to property investment. It would seem to furnish an effective answer to those who contend that capitalization should be scaled well below investment in order to permit future sales of stock at a ratio substantially in excess of the ratio of increase in investment.

The most important contribution which can be made today toward putting the railroads into sound financial position is to make clear to the public this basic fundamental of earning power. For it is the public's own money that must be conserved and protected if a continuous flow of new money from fiduciary institutions is to be assured. The plea so often heard these days that investors should tear up their railroad bonds and then rush in to buy new ones is utterly fallacious. You cannot rebuild credit by dynamiting what little credit remains.

Once a new investment standard is defined which substitutes facts for obsolete generalities, and it is seen that maintenance of this standard is essential to stable credit conditions, there is every prospect that all who wish to avoid Government ownership will approve the necessary level of earnings thus clearly defined.

It is up to us, as investors, to make the next move. Our financial institutions can get along without the railroads but the railroads cannot get along without the funds for modernization which only the fiduciary institutions can supply in adequate amount. We must make clear the requirements that must be met if the railroads are to be assured of the required flow of new capital.

Savings Deposits—A Growing Responsibility

By William R. White, Superintendent of Banks, New York

In introducing Mr. White, President Sherman said:

Since 1930 Mr. White has been on the staff of the Banking Department of New York. For the last three years he has been Superintendent of Banks, and for most of that time he has been Chairman of the National Association of Supervisors of State Banks. There is no one in the United States who knows our problems of savings accounts better than Mr. White, and I feel very much honored in presenting him to you.

The address of Mr. White follows:

Soon after the program of this convention was announced a banker friend of mine remarked that he understood I was coming to Houston to speak on "Savings Deposits—A Growing Responsibility." I told him that his information was correct, and asked him what he thought of the topic I had selected. "Well," he said, "it's a live subject, but I suggest that you change the title to 'Savings Deposits—A Growing Headache.'"

That thought is held these days by a large number of bankers who are trying to cope with the problem of finding employment for idle funds. Not many years ago the banker had a warm spot in his heart for savings deposits. True, he was required to pay depositors a high rate of interest, but by investing in mortgages and in high-yield securities he was able to show a profit at least until the depression necessitated a final reckoning. Today, after a prolonged period of low money rates and scant demand for loans, many bankers are wondering if it would not be wise to eliminate the savings department. Such may be the solution for the bank possessed of a fair volume of commercial deposits and located in a community served by a savings institution. For many banks, however, the problem seems more difficult for the reason that the elimination of the savings department would affect a large proportion of the bank's deposits, and at the same time would deprive many communities of a suitable depository for savings.

During this century time and savings deposits have become an important factor in the business of commercial banks. In 1909 gross deposits in such institutions amounted to $13,000,000,000, of which $3,000,000,000 were time and savings deposits. In 1930 gross deposits were $51,000,000,000, of which $20,000,000,000 were classified as time and savings accounts, while for the current year gross deposits of $48,000,000,000 include $15,000,000,000 of time money and savings. These figures indicate that whatever may be our theories of commercial banking, we must recognize the savings department as an integral part of our American system of banking. The question of whether we like it or not is largely academic. The problem, as I see it, for those banks which propose to remain in the savings field is to make the savings department profitable without depriving it of its usefulness to the public.

In striving for this objective there is one fundamental principle from which there can be no deviation. Each bank must determine its interest rate on the basis of its ability to realize earnings from sound assets and not with the thought of matching or exceeding the rate which is paid by competitors. The importance of this principle has been demonstrated time and again during the past few years, yet we find that some banks still regard interest on deposits as a fixed charge rather than as an item of expense which is always subject to adjustment. I believe I have heard all the arguments concerning the difficulties involved in reducing interest rates, but I am yet to learn of the first bank which has not been benefited by adopting a lower rate, even though such action has sometimes resulted in a small loss of deposits. Fear of losing deposits is seldom justified, but even if it were, the loss of deposits is preferable to investment in speculative securities.

I do not mean to imply that bankers should not endeavor to make savings worth as much as possible. They should assume this responsibility, and it is with this thought in mind that I wish to discuss the major problems presented by the savings department.

In his effort to make savings deposits productive, the banker finds himself at a serious disadvantage because the depositor has been encouraged by past practices to expect not only a substantial rate of interest, but also the privilege of withdrawing his deposit without advance notice and without delay. As a matter of contract, the bank usually has been permitted to require a 30- or 60-day notice from the depositor of his intention to make a withdrawal. In practice, however, the bank seldom has required any advance notice, with the result that the depositor has come to regard the obligation as payable on demand. In most cases when he is asked to wait for his money he has set up a hue and cry that resulted in swamping the bank with demands from all depositors.

It seems strange that banks should expose themselves to such hazards by becoming parties to contracts which they cannot hope to perform in the event of simultaneous demands by a substantial number of depositors. It is unsafe to assume that performance will not some time be required. In fact, our entire history of banking indicates that no bank can be certain that the confidence of its customers will not some time be shaken. Events of the early 1930s are still fresh in the minds of most of us. We can all remember instances when banks were suddenly called upon to transform non-liquid assets into cash to meet the demands of depositors. We know that such efforts were often futile and that they frequently entailed the sale of assets at sacrifice prices, with the result that markets were depressed and business recovery retarded.

Experience has taught us that the first step to be taken in any reform of the savings department is to formulate a plan looking toward the eventual termination of the practice of treating savings as demand obligations. In general, such a plan might be modeled after the regulation of the Board of Governors of the Federal Reserve System, which requires that time deposits shall be made for definite periods and that the rate of interest which may be paid thereon shall be related to the length of time for which such deposits are to be held. I appreciate that many problems will be encountered in attempting to apply this principle to savings deposits. Most of these difficulties, however, might be overcome by a plan which would induce the public to deposit its savings on a definite term basis by paying a higher rate of interest upon such funds than upon deposits subject to a 30- or 60-day notice. As the public became accustomed to this practice, the term for which deposits are accepted could gradually be lengthened, thereby affording greater protection to the bank in its efforts to find profitable investments.

Since our objective is to educate depositors as to what they may rightfully expect from a savings depository, we should begin by correcting their impression that their funds are always held available in cash. This purpose could be accomplished to a large extent by any plan whereby deposits are made for definite periods, even though such periods are not calculated to correspond to maturities in the investment and mortgage portfolios.

The Savings Division of this Association might profitably study this problem. It deserves your most serious attention, not merely because of its direct bearing upon the future of savings departments, but because it involves the broader question of how we can bring stability to our entire banking system.

In revising the contract between the bank and the depositor, one further point is deserving of consideration. In the past deposits have generally been accepted in the savings department without question as to whether they possess the true characteristics of savings. It may be difficult to define savings, but certainly some standards can be adopted to bar from the savings department the funds of corporations or large sums belonging to individuals. It is important that the services of the savings department be confined as much as possible to persons of small means, if such departments are to be accorded recognition to the same extent as mutual institutions which have long enjoyed the favor of legislative bodies. To cite one instance, the Federal Home Loan Bank Act provides in substance that

Federal Savings and Loan Associations may be formed in communities not already served by thrift and home financing organizations. This language appears to protect mutual savings institutions from competition from Federal associations. Evidently, however, it was not intended to afford the same protection to a commercial bank, no matter how complete the services of its savings department might be in the thrift and home financing field.

I have emphasized the importance of concerning ourselves first with the nature of the liabilities of the savings department, because, in my opinion, this problem must be solved before we can formulate a sound investment policy. I do not propose to discuss the details of such a policy, but there is one major consideration to which I should like to refer. For more than a century we have thought of a savings institution as one which encourages thrift, pools the small savings of the public, and finances home ownership and home building in its own community. In other words, such an institution is identified not merely by the nature of its liabilities, but also by the character of its assets. This, I believe, is an additional factor which commercial banks must keep in mind in the conduct of their savings departments. If they are to gain full recognition in the savings field, they must pursue a policy not only of encouraging thrift but also of encouraging building and home ownership. I realize that commercial banks are interested in sound mortgages to the extent that they have funds available for this purpose, just as they are anxious to find acceptable commercial loans. In my opinion, however, banks might take a more active interest in removing some of the factors which tend to retard mortgage financing. I refer particularly to the need for reforming both laws and practices which place an unnecessary burden upon the mortgage borrower and therefore tend to discourage construction and depress the real estate market.

Many banks have already recognized the need for meeting this problem and have accordingly adopted more modern forms of mortgage instruments, reduced interest rates on new mortgages, and eliminated certain of the incidental charges which were common in the 1920s. As an example of what I have in mind, a banker recently told me that his institution for many years permitted its attorney to collect a fee for each closing he attended, a charge which was passed on to the borrower. Recently the bank announced that this charge had been eliminated, with the result that its new mortgage loans immediately showed a substantial increase in volume. Many expenses incident to mortgage financing are, of course, beyond the control of the lender, but even as to these, it is possible for the banks to assume leadership in effecting necessary and proper reforms. We might begin with the methods employed in title examination and proof. It is not surprising to find a moderate difference in cost among the several methods commonly employed in this country in clearing titles. But when we find a wide variance in costs between two States employing the same system we have good reason for believing that at least in some jurisdictions such costs are excessive. As a matter of fact, there is good authority for the statement that most of the methods commonly employed in examining and proving title are unduly expensive and constitute a burden on real estate that is deserving of careful consideration.

The same can be said of the cumbersome and outmoded laws in many States, which act as a bar to the prompt and economical repossession of property by the mortgagee. Many such laws which have been enacted to help the mortgagor have in fact over a period of years defeated their own purpose by increasing the costs of mortgage financing. Increased costs have not only meant higher interest rates but also smaller loans, because the mortgagee has been compelled to get security not only for his loan but also for the advances which he would be compelled to make in event of foreclosure.

There are two important reasons why the members of this Association should give their support to the adoption in every State of modern laws relating to mortgage financing. The first is that mortgage borrowing has always afforded banks located in villages and small cities one of their most important outlets for savings funds. The second is that unless banks do take an active and constructive interest in the problems affecting real estate the field will be usurped by other lending organizations.

Most of us have already had some experience with Federal Savings and Loan Associations. These organizations have entered many communities for the announced purpose of making mortgage loans, but have promptly become aggressive competitors for the people's savings. I disapprove most emphatically of any suggestion that banks should compete in the payment of interest with any organibation or with the United States Government in its operation of the Postal Savings System or its sale to the public of so-called savings bonds. I do believe, however, that banks which act as a medium through which the community's savings are made available for local home financing are entitled to demand protection against the formation of new agencies to perform this function, and particularly are they entitled to protecion against systems or measures which tend to siphon out of a community the savings of its people.

Bankers who are intent on finding a solution to the problems which I have outlined must inevitably concern themselves with the development and policies of Federal Savings and Loan Associations. If we examine the brief history of this movement and the recommendations of its sponsors relative to its future, we shall find facts and potentialities of concern to every banker, whether or not he is interested in maintaining a savings department. Subsidized through Government appropriations and tax exemptions, these associations have already been established in many communities in competition with existing institutions. Through a policy of aggressive advertising they have featured their connection with the United States Government and frequently have led the public to believe that its savings are readily available, even though invested in long-term mortgage obligations.

Not content with the powers which have made this rapid expansion possible, their sponsors look to an even more ambitious program and at the last session of Congress urged the adoption of a bill which, among other things, would have provided:

That any part of an association's assets might be invested in any securities approved by the Federal Home Loan Bank Board.

That 30% of assets might be loaned upon real estate regardless of its location or the size of the individual mortgage.

That Federal Home Loan banks might lend to their member associations upon the security of any obligations approved by the Board.

That Federal associations should be completely exempt from all taxation, Federal and State, except real property taxes, and that their shares and the income therefrom should be wholly exempt from all taxes, except surtaxes, estate, inheritance and gift taxes.

That the shares of insured associations should be lawful investments and lawful security for all fiduciary, trust and public funds under the control of the United States.

In contemplating the alarming potentialities of legislation of this character, let us not forget that even now these organizations claim the power, which in at least one case has been exercised, to establish branches across State lines. What an amazing paradox is this—a local thrift and home financing organization possessed of the power to establish branches in defiance of State law and in disregard of State boundaries.

While the proposals for additional powers failed of enactment at the last session of Congress, they have not been abandoned. In fact, we have the promise of their sponsors that they will be vigorously pressed at the next session. Time does not permit me to discuss all the objectives of this bill, but I should like to mention two which should be of particular interest to the banks of this country. It is significant to note that while the original amendment to the Federal Home Loan Bank Act providing for Federal Savings and Loan Associations had as one of its primary purposes the promotion of home financing, it is now proposed that the term "loan" be omitted from the name of these institutions and that they hereafer be called Federal Savings Associations. In other words, the emphasis is now being placed upon the power to accept savings, which indicates that the ultimate objective of the sponsors of this legislatian is to set up a system of Federal Savings

banks under the supervision of a Board which is wholly independent of established bank supervisory authorities. It is impossible to believe that such a program could be carried out without serious consequences to our present banking system. But even more alarming is the suggested provision that such associations be permitted to invest any part of their assets in securities approved by the Federal Home Loan Bank Board. Just what is intended to be accomplished under this additional power is not entirely clear, but certainly it suggests the possibility that these associations may be allowed to discount the obligations of individuals and corporations.

In concluding my remarks I have made special mention of Federal Savings and Loan Associations because, in my opinion, their existence and the threat of their expansion render more difficult of solution the problems which already confront the savings departments of commercial banks. This is true because these organizations, not being subject to the jurisdiction of bank supervisory authorities, have been allowed to organize and to operate with little regard to the effect upon existing banking institutions. In my opinion such an association should not be allowed to enter a community which is being adequately served by a bank, but if in such a case a charter is granted, the least that the existing bank has a right to demand is that its new competitor be required to respect sound banking principles. One way to accomplish the desired objective is to transfer to bank supervisory authorities the power to charter and supervise Federal Savings and Loan Associations. A movement to accomplish this purpose has already been started. It deserves the vigorous support of this Association and of all bankers who are willing to assume leadership in the savings field and the growing responsibilities of savings deposits.

Something for Nothing

By Philip A. Benson, President of Dime Savings Bank of Brooklyn, N. Y., and First Vice-President American Banker Association

From time immemorial there have been those who wanted something for nothing. The slow and painful road of toil had no appeal. Some have had an ambition to acquire riches quickly and easily; others have been content with the mere necessities of life provided they could be acquired without work. The number of those who seek something for nothing has not diminished, but rather increased. The newcomers to the ranks of the dreamers are not necessarily dishonest in their motives but believe that under a new kind of economics it is not necessary for them to work. Give us, they say, substantial pensions and we will agree to spend the money and consume goods. One proposal is that tickets or warrants be distributed to a large number of people entitling the holder to goods and commodities. The idea is that by using these tickets and consuming goods a certain activity will be created that will bring profit and satisfaction to everyone. They lost sight of the clearly established fact that any such group will be taking something they have not earned; that they will be consuming things that have been produced by the toil of others; that they will be reducing the amount of goods available for workers and their families. True, they will be getting something for nothing but this will be possible only because other people will be paying the bills. This may seem harmless in itself but it ceases to be harmless when hundreds of thousands of people are deceived into thinking that it will work, and it assumes the importance of a political issue. It will collapse, of course, if tried, but the experiment will be costly to the people and to the State itself. Some political leaders have warned voters what the results will be. Others have not had the courage to do so.

These something-for-nothing ideas have been running wild lately. They are impractical. We know they won't work, but it is extremely difficult to prove this to those who have been entranced by them. Wealth and the laws governing its production and distribution are not difficult to understand. These are terms with which we have been familiar for generations. Their meaning is not hard to grasp. It seems clear that in the long run the only things that can be distributed are things that have been produced; that all these things come from labor combined with the products of the earth; that plant and machinery are the tools furnished by capital; that business consists in producing the raw materials, converting them into usable goods and commodities, transporting and marketing them, and furnishing the numerous services incident to these operations. Through these processes wealth is produced and distributed to the producers in salaries, wages and profits. If a number of people who have no share in the economic process of production are allowed a share in the product, they are getting something for nothing but at the expense of those who have produced it.

You recognize the pressure groups to which I have referred. I want you to recognize another influence. Government, when it taxes business concerns and individuals, is taking a share of the product of industry, and the share taken by Government gets larger and larger. No one would curtail the ordinary and necessary functions of government—our lives, liberties, fortunes and well-being depend on them. But to extend government beyond its regular sphere, to widen its activities, to increase greatly the number who derive their support from it, creates an additional burden on industry and one that it should not have to bear. It is estimated that the total annual tax collections in this country —national, State and local—reached the astounding total of 12½ billions of dollars in 1937. In 1926 it was $8,605,000,000; in 1931, $9,300,000,000; in 1936, $10,466,000,000. Note the steady increase and note also that it occurs while we are endeavoring to recover from a depression. True, some of this is for relief and for public works, but regardless of its use, the burden rests on all wage earners and all property owners. I known there are some who think the rich pay most of the taxes but that isn't so. It isn't true either that government has some magic way of getting money—it hasn't! Government hasn't discovered how to get something for nothing. No, taxes are paid by hard work, by industry, by what we produce. Perhaps something would be done about it if more understood this!

If these tendencies grow, if we yield to the demands of the something-for-nothing boys, if we allow the tax gatherer to dip in for an ever-increasing amount, there isn't going to be much left for the thrifty and honest workers.

Statistics published by the Savings Division of the Association indicate there were $24,000,000,000 deposited in 44½ million savings accounts in the banks of this country. While we must allow for duplications, there seems no doubt that many millions of individual citizens saved money and that they have deposited it in a place where it is safe. These depositors have no fear of loss. This great army of thrifty individuals have not only earned a living for themselves but have found it possible to save some part of what they have produced. They are not the kind of people who seek something for nothing. They have sought financial independence through their own efforts. The money thay have placed in these millions of savings bank accounts is not only safe but is quickly and readily obtainable when needed. Savings bank funds are safe principally for two reasons, the first of which seems to me most important, namely, the character of the bank assets in which the money is invested. The second factor of safety has been provided by laws that have made possible insurance of deposits. I am sure no banker wants to feel that deposits in his bank are safe simply because they are insured. The kind of safety he seeks is that which flows from the strength of his own institution. For this reason every prudent banker knows that no loan or investment has any place in his bank's portfolio unless it can qualify as high grade and is as sure of payment when due as is humanly possible.

Goods of the best quality sell at the highest prices. This is also true of bonds of high quality. To put it another way, high grade bonds pay the lowest rate of interest. We would much prefer to be able to invest at higher rates, but to do so

would necessitate our purchasing bonds of inferior quality. We would get more income from our investments but would forfeit security, lessen liquidity, and increase trouble and uncertainty. You cannot get something for nothing even in the return on investments! Many individuals learned this lesson through bitter experience in the years commencing with 1929. They had drawn money from conservative savings accounts and put it into stocks of a speculative nature or in real estate bonds paying 5½% or 6% or even more, or in things of even less real worth. The value of these so-called investments quickly shrunk. These investors had sought added income. They paid for it with loss of principal. They illustrate the fact that you can't get something for nothing.

I referred to deposit insurance. There is no doubt that insurance has added to the safety of deposits and the confidence of depositors. The Federal Deposit Insurance Corporation is, as its name implies, an insurance company. Banks pay the premium on the insurance, the depositor gets the benefits. He is insured against loss. This added measure of security came at a time when confidence needed to be restored. The Corporation has been wisely administered and bank policies advocated by the FDIC have been constructive and wholesome. Still, it is an insurance company. We pay for the insurance we get. Losses, when they occur, are paid from premiums collected from solvent and successful banks. In other words, the protection is paid for; we do not get it for nothing. However, by building up sound banking institutions, we can reduce losses and in the long run minimize the cost of this insurance.

I have mentioned the fact that savings bank depositors want not only safety but availability. They want to be able to get their money when they ask for it. We would not expect them to put their money on our counters in exchange for entries in their passbooks unless they could expect to come back, ask for their money and get it. In order that this migh always be possible the bank must possess liquidity. If we expect to pay our depositors their money without delay, all our funds should not be tied up in mortgages, which are non-liquid investments. Our portfolios while containing mortgages must at the same time be arranged to meet the potential demands of our depositors. Of course, we get less interest on liquid investments and this tends to make bank earnings smaller. Mortgages pay the most interest, but we cannot afford to have all our assets non-liquid. We are willing to have less earnings in order that we may meet every need of our depositors. The depositor, on the other hand, must expect to get a lower rate of return from his bank deposit than he would if he were investing his money in some non-liquid institution or security.

There are institutions seeking the depositors' dollars by offering higher interest rates, and in order to attract these dollars they simulate banks. They would like their customers to believe themselves depositors although they are really shareholders. While these institutions may offer larger interest rates, the customer should understand that the extra rate is at the expense of liquidity and availability. The customer gives up something for the extra interest he gets —he is not getting something for nothing. I am not reflecting on these corporations in any way but merely wish to point out that people get what they pay for. If they want the advantages of a bank deposit they must forego the larger interest return that might accrue to a shareholder. I feel justified in making the challenging statement that no type of institution equals a bank in the three essentials required by depositors— namely safety, availability and interest return. And I would make the further statement that if a larger return of interest than your bank will pay is demanded, those demanding it must sacrifice one of the essentials mentioned.

The vast fund of over $24,000,000,000 in the savings accounts is not the only large fund of savings in this country. The resources of life insurance companies are approximately of an equal amount, and there are still other forms of savings. I would like to ask two questions regarding these funds; first, where do they come from, and second, what good have they done?

The answer to the first question does not require much thought. Those of us who are associated with savings banks know the character of the people who come to us with their savings. The young man and the young woman saving for future homes; the young couples putting money aside for their children; the man and woman who work in mills and factories and offices, or on farms or railroads or utility plants —the great industrious army that is producing things— these have taken part of their income and set it aside in a fund of savings. We of the savings bank world realize how sacred this fund is; how much of people's lives and feelings are bound up in them. What satisfaction has been experienced as the individual accounts have grown! How conforting these accounts have been, for through them provision has been made for sickness, misfortune and old age. These accounts did not spring from wishful thinking. They are the fruit of some of the finest traits of human character. The same things may be said of the funds held by our great life insurance companies. Men have taken something from their earnings, from whatever source derived, and purchased life insurance in order that they may feel confident that, in in the event of death, those dependent upon them will have their needs supplied.

There are then, these two great institutions—the savings bank and the life insurance company—that have furnished real social security for the people of this country for many generations. We all know from whence the funds have come, we all know their purpose. We come now to the second question—"What good has been accomplished by these funds?" I have mentioned the good they have done for those who created them and those for whom they were created, but they have had, too, a value of tremendous significance to all the people of the country. The fund of savings has been invested in all those things that have made human progress possible and that have added comfort and enjoyment to life. Let me mention but one field of investment—securities of the electric light and power industry. Savings to the extent of hundreds of millions of dollars have been used in the expansion of this industry, in the creation of power plants and in the distribution of the product. Do we fully realize the place that electricity plays in modern life? What vast loads it carries? How much human toil it relieves? What luxury it is in the millions of homes where it is used? The employment of savings, coupled with man's resourcefulness and inventive genius, have made it all possible.

I could speak of other things made possible by savings— schools and parks and playgrounds, roads and public buildbuildings—all of which have been paid for by bonds sold to institutions of savings. Savings have grown with the growth of industry and as these savings have grown society has progressed. The history of our country illustrates this, for its development in less than 300 years is the result not only of human toil but of the use of capital derived from savings.

There have been in the past, and I suppose there always will be, a certain number of people who seek to live by their wits, and who have gotten far too much for nothing. They might be called "financial grafters." They have tried to imitate real investments and sell them to the unwary. They have dealt in so-called "gold bricks," worthless securities; in schemes that sounded plausible but which resulted only in loss to those who have been deceived by them. It is especially sad when those who have been victimized are the elderly and the middle-aged. Many of these have parted with their money without asking the advice of bankers, or contrary to such advice. Those agencies of Government that are active in suppressing tricksters and frauds and that require complete and true information regarding securities offered to the public deserve our full support. Better business bureaus and other promoters of "blue sky" laws have been particularly useful in similar endeavors. Capital requires encouragement and protection—its proper and useful employment is of prime importance. It is also important that the wheat be recognized as well as the tares in the field of investment.

This year will long be remembered as one in which many fallacious ideas for curing economic ills have found voice, ideas which have sprung from the erroneous thought that something can be had for nothing. The country cannot be made rich by the issuance of paper money, or any other method of inflation, but there are a number of people who don't know this yet. The country as a whole cannot be

helped by the purchase of vast quantities of a metal called "silver" (the greater part of it from foreign countries) and storing it away in a vault. On the contrary the country is harmed by it, for the taxpayer foots the bill. And lastly, prosperity won't come through granting indiscriminate pensions and subsidies which will but add to our already too heavy burden of taxes.

I have mentioned from whence savings have come and the good they have accomplished for individuals and for the Nation, and I have tried to point out the danger and folly of seeking to get something for nothing. Perhaps America stands at the cross roads today. Are we as a people to proceed to a planned economy, to the control of all industry and enterprise by the State? I cannot believe that we are, for that road leads to servitude. It would be an abandonment of all we have learned by the lessons of the past. No, what we need is a reaffirmation of faith in our system of free enterprise which, as a great American recently said, is inseparable from moral and intellectual liberty. Only by the encouragement and protection of savings and of business privately conducted by business men, can the unemployed get back on private payrolls. Only in this way will lasting prosperity come. While recognizing the need for social progress let us not abandon those principles that made our America great and furnished happiness and satisfaction to the largest number of Americans.

COMMITTEE AND OFFICERS' REPORTS—SAVINGS DIVISION

Address of President Henry S. Sherman, President of the Society for Savings, Cleveland, Ohio

Progress in the Savings Business

In the face of a year of depressed business conditions, it is pleasant to report that savings in banks and trust companies of the United States showed an increase. The increase was slight, only $133,557,000, but aside from decreases in two areas, New England and the West Central States, the gain was fairly general. There is a surprising situation in New England where, for the first time in many years, all the States showed a decrease from the previous year. In the West Central group there is frequently considerable variation. In that area the decrease was perhaps a delayed factor of the recent drought.

The total savings as of June 30, 1938, in the banks and trust companies of the United States amounted to $24,625,514,000, and the number of depositors totaled 44,548,914. The number of depositors showed a gain of 322,736, but the total is still a far cry from the 52,729,432 who were registered in 1929. If that year were regarded as normal, the number of savings depositors as of June 30 last, on the basis of increased population, should stand at 55,365,904. The decrease from that point gives rise to serious thought because during no year since that time has there been a recovery sufficient in volume to indicate that the old figures may be reached. Is the country losing savers, or are agencies other than banks being used? Do the figures indicate that those who learned in years past to deposit in banks remain in their affiliation, and that the younger generation is finding other avenues? Or is the failure of perceptible gain in savings depositors simply a result of the long depression? The subject is one which will bear deep thought on the part of bank managers.

As of June 30, 1938, savings in banks of the United States were lodged as follows:

Mutual savings banks	$10,151,410,000
National banks	7,598,601,000
State banks	3,969,195,000
Trust companies	2,867,453,000
Private banks	38,855,000
Total	$24,625,514,000

For approximately 100 years up to about the beginning of the World War there was an almost uninterrupted annual increase in the amount of savings entrusted to banks and in the number of savers. During the past 20 years this trend has been much more irregular and to what appear to be some of the causes of this irregularity the Savings Division of the American Bankers Association has, during the past year, directed its attention.

Largely in these recent years there have developed entirely new types of competition to old-time thrift: namely, instalment selling, the creation of new agencies, and so-called savings receptacles.

The orgy of instalment selling with its popular slogan of "Save and enjoy while you save" will, it is believed, be found to be a poor substitute for true savings.

The creation of new receptacles for savings funds has of necessity had some effect upon savings which would ordinarily be entrusted to the banks. Much has been heard during the past three years of Government-chartered Federal Savings and Loan Associations, which have attracted from approximately 1,000,000 people about three-quarters of a billion of investments.

Of even more recent origin is the publicizing of the new concepts of thrift through social security or enforced saving, the buying of homes on margins which makes little or no allowance for inevitable changes in property values or the economic status of the borrower, the idea of spending to relieve unemployment.

The adoption of educational programs is believed to be the only effective method of meeting these newest types of competition, and to this end the Savings Division of your organization has addressed itself during the past year through its Committees on Federal Legislation, Investments, Personal Loans, Personal Money Management, Public Relations, Real Estate Mortgages, Savings Development, School Savings, and State Legislation.

Recognizing the unfortunate effects of varying policies in the computation of interest on savings deposits in banks, the Committee on Savings Development has undertaken a comprehensive survey of such subject. It can hardly be disputed that a method of computing interest on savings accounts should not be a competitive factor in banking, and that a savings deposit in one type of bank should return an equivalent earning to the same type of deposit in another bank. Studies of this subject have not been completed, but it is hoped that there will be eventually developed a method of computing interest which will be generally acceptable to all banks throughout the country.

Of great importance, also, is the study initiated during the current year to determine the location and use of time deposits in banks. We are asking whether commercial deposits and time deposits are commingled in use without reference to their source—whether seasonal businesses are financed by banks through a commingling of savings and time deposits with commercial deposits; whether time and savings deposits are utilized in commercial banks in a manner fitted to the nature of the deposit; what is the turnover in savings and time deposits—for turnover is expensive; what means could be used to decrease bank turnover in savings and time deposits; whether the same factors are found in different trade areas or areas given over to differing types of business, or between business areas and agricultural areas. The information being uncovered has for the most part never been sought before, and is not now available in State Bank Departments or in the records of the Federal Deposit Insurance Corporation or the Federal Reserve banks. In order that there should be no overlapping of research, the committee has as advisers a former Governor of the Federal Reserve Board and a Vice-President of the New York Federal Reserve Bank. In this study the Division has the hearty cooperation of the 12 Federal Reserve banks. Manifestly the study could not be made by them because it involves information from banks which are not members of the Federal Reserve System, and some of the Federal Reserve officers feel that it might be resented by non-members of the Federal Reserve System if undertaken by that organization. The importance and voluminous nature of this study is such that many months will be needed to arrive at conclusions.

Other subjects which have been given considerable attention during the year are methods of promotion and advertising by Federal Savings and Loan Associations. For many years building and loan and savings and loan associations acting as local, mutual, thrift and home financing institutions have served a very useful purpose in the upbuilding of this country. In many areas the inability of these institutions to continue to function on a normal basis at the outset of the depression resulted in the creation of a new type of institution chartered under an Act of Congress, aided with Government capital, and known as Federal Savings and Loan Associations. Not content with the services which they were designed to render, many of such institutions embarked upon a program of soliciting private savings upon a basis which has been subject to much criticism. Last March I had the honor of addressing the regional conference of the American Bankers Association in Indianapolis, at which time I said that I believed it was the duty of every banker to make known to the public by every reasonable and legitimate means that money entrusted to Federal Savings and Loan Associations does not constitute a deposit but represents an investment in the shares of such institution; that the withdrawal of funds is possible only through the redemption or repurchase of shares, and that failure to redeem or repurchase on demand does not constitute default; that by its very charter provisions such associations cannot accept deposits from the public and shall not represent themselves as deposit institutions. At the same meeting there was exhibited a vast array of advertising material put out by certain of these institutions, illustrating the extent to which many of them had gone to create in the minds of the public impressions entirely inconsistent with their actual authority. I also mentioned an effort which a special committee of your Association had made through direct contact with the Home Loan Board to curb some of the practices complained of. Subsequently another conference with the Home Loan Board was held, attended by representatives of the Savings Division appearing under the auspices of the Committee on Federal Legislation, representatives of the United States Building and Loan League, the National Association of Mutual Savings Banks, the Comptroller of the Currency, Federal Deposit Insurance Corporation, and the Federal Reserve Board, at which conference the operations of Federal Savings and Loan Associations were again reviewed at some length, resulting in the appointment of a smaller committee which later met with the Governor of the Federal Home Loan Bank System. The last meeting resulted in recommendations for a plan of action contemplating the appointment in each State of a small committee, representing Federal Savings and Loan, building and loan associations, and the banks, through which would be cleared any complaints of either group of institutions. While these committees have no official authority, it has been the hope that through their deliberations any abuses complained of might be corrected. In furtherance of this idea President Adams has asked each State Bankers Association to appoint two bankers on each of such policing committees. Similar action has been taken in most instances by the National Association of Mutual Savings Banks and by the United States Building and Loan League, and many of these committees are now functioning. Only the future can determine the value of these committees. If by this or some other method these institutions can be further developed as local, mutual, thrift and home financing institutions with a full and complete realization on the part of investors therein as to the nature of their investments, such institutions will increase in usefulness to the community and their operation cannot be the subject of criticism on the part of banks. There would seem to be little justification for the conversion of Federal Savings and Loan Associations into a new and distinct banking system, as was proposed in a bill, introduced in a Senate committee last summer, which met with the forceful, sound and convincing objections of the then Acting Secretary of the Treasury.

School savings as of June 30 showed a loss in deposits over the preceding year. It has vindicated itself in that it set aside funds in prosperous period which are utilized in times of depression to augment the family earnings. This phase of banking has not received the attention which its importance warrants. Many children get their first knowledge of the meaning and use of money after they graduate from high school and after they have developed practices in spending beyond their ability to earn. The percentage of children attending high school has greatly increased in the last two decades. About 65% of the children of school age now attend high school. It is imperative that these children have knowledge of the meaning and use of money before they graduate, otherwise they are deficient in the use of one of the most valuable tools in modern life.

The American banking system, with its dual type, has grown out of a trial and error method and thus seems to fit the times in which we live. Any effort to change this arrangement of natural growth must necessarily

prove injurious not only to the banks themselves but to the businesses which they serve. It would seem to us that it is the duty of every banker to look well to his own institution so that he may know that he is giving needed service to the people of his community. Any institution or system will endure in the United tates just so long as a majority of the people believe in it. If unit banks fail to meet the test of the needs of their communities, other agencies or other forms of banking will appear, regardless of the desires of the managers themselves. In times of business depression many panaceas are advanced, and naturally during the last few years much discussion has centered about the structure of the American banking system. It is obviously wise so to conduct ourselves that we develop most fully the virtues of our own system, which has grown so naturally, and particularly to watch its faults, for, being man-made, it has and always will have weaknesses that future events, differing from past events, inevitably disclose. If we all apply ourselves to this task with sufficient diligence and intelligence, our system will not be displaced by another one, although there are always proponents of other ideas constintly at work. But if we are not assiduous to our task, another, even though an inferior, system of banking could take its place. Where an inferior scheme of things succeeds in pushing out and replacing a superior scheme, it must be caused by the neglect of the operators of the superior but displaced scheme. When the northern barbarians of Europe displaced the civilization of Rome, it was not because the so-called barbarians represented a superior civilization but because the Romans had failed to operate their own civilization successfully.

Report of Committee on Nominations

President Sherman: I am glad to open the meeting to any new business there may be. If there is none, we will have the report of the Nominating Committee. Mr. Deppe, are you ready to report for your committee?

Mr. Deppe: Mr. Chairman, your Nominating Committee is pleased to report its nominations:

For President, R. P. Williams, Vice-President, Bank of America, N. T. & S. A., Los Angeles, Calif.

For Vice-President, A. George Gilman, President, Malden Savings Bank, Malden, Mass.

For Members of the Executive Committee: J. Hamilton Cheston, Vice-President, Philadelphia Saving Fund Society, Philadelphia, Pa.; W. M. Smoot, Cashier, Utah State National Bank & Trust Co., Salt Lake City, Utah.

Report signed by Noble Jones, Edward Robinson and Charles H. Deppe, Chairman.

[The motion to adopt the report was duly seconded and carried and the new officers installed.]

TRUST DIVISION

AMERICAN BANKERS ASSOCIATION

Forty-Second Annual Meeting, Held at Houston, Texas, Nov. 15, 1938

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Advantages of the Corporate Executor and Trustee

By JOHN H. FREEMAN of the law firm of Fulbright, Crooker & Freeman, Houston, Tex., substituting for JAMES V. ALLRED, Governor of the State of Texas, who was the scheduled speaker

President Griswold of the Division, in making known the inability of Governor Allred to be present, said:

I was very much disappointed when Mr. Barkley, of the Second National Bank here in Houston, handed me this telegram from Governor Allred: "Will deeply appreciate it of you will extend my personal and official greetings to those assembled for the bankers' convention as well as my sincere regret at the circumstances rendering it impossible for me to be there to welcome our visitors personally. Best wishes for a most successful meeting."

We received this wire too late for us to make any change in the printed program for this afternoon, but we are very fortunate in having a gentleman here who will speak on the same subject as Governor Allred was asked to speak on, "Advantages of the Corporate Executor and Trustee."

The gentleman who is about to address us is a member of the firm of Fulbright, Crooker & Freeman, of this city, one of the leading law firms here in Houston. He has had a very long and distinguished career at the Bar. He is a very able trial attorney. He is a bank director and also represents some of the banks here and is eminently qualified to talk to us on this subject.

It gives me great pleasure to introduce to you John H. Freeman.

Mr. Freeman, in responding, had the following to say, in part:

Ladies and Gentlemen:

All of us are seriously disappointed that it was not possible for Governor Allred to come here today and deliver the address he intended to deliver. We of Texas are very proud of our present Governor, and we would have liked very much to have you hear him talk. . . . The committee, however, has asked me to talk on the subject assigned to him. . . . I am here as sort of an understudy. The subject assigned is "Advantages of the Corporate Executor and Trustee." As a lawyer, I believe I would have preferred to talk in a sort of running comment, ad lib, as it were. But your Vice-President for Texas told me that when they ask a lawyer to make a speech to this Division, they insist that it be in writing and that the lawyer talk from his text. Following that admonition, I have this in writing and I am going to read it to you.

Mr. Freeman's prepared address follows:

Perhaps some of you may wonder as to the timeliness of this subject for an address delivered to the Trust Section of the American Bankers Association. All of you are officials of trust companies or of banks with trust departments; all of you are corporation-minded; all believe in corporate trusts. Why, therefore, take the time at this meeting to discuss the advantages of corporae trusts? The reason is definite. It is, in fact, more than a reason—almost it is a necessity for you as officers in charge of corporate trustees to know and to have constantly in mind these advantages, their implications and the consequent responsibilities that rest upon your institutions.

By way of illustration, let me suggest the case of a passenger, a railroad traveler who takes passage upon the "Century" or the "Broadway Limited" to the East Coast or, perhaps, upon the Santa Fe's "Chief" to the West Coast. He buys his ticket and pays an extra fare because of certain advantages—safety, speed, comfort, luxury—possessed and offered by the particular train. But when he became a passenger upon that train those advantages belonged to him as a passenger and there became implicit in the railroad company the obligation to provide those advantages to the passenger and for the passenger, fully, punctually, and completely. The advantages are not merely advantages possessed; they are advantages offered. Let me say that again: The advantages of corporate trustees and executors are not merely advantages possessed, but they are advantages offered.

The advantages of corporate executorships and trusteeships belong to the beneficiaries, the devisees and legatees, the *cestuis qui trustent*, for whom the banks and trust companies in their capacities as corporate trustees are or may be acting. When we list on one side of the ledger the advantages we must, of necessity, set up on the other side—on the liability side—the responsibilities that these advantages create in favor of the trust customer.

There will not be time this afternoon for us to consider all of these advantages in detail, but we can look briefly at a few of them. The first advantage to occur to most of us, though perhaps not the most important, is the advantage of

Assured Long Life and Good Health

Death comes of a certainty to all natural persons, and individual trustees are not excepted. Sickness, accident, impairment of faculties, individual vicissitudes, sooner or later, and in one form or another, reach and affect all natural persons. But the corporation acting as executor or trustee, properly staffed and managed, does not die in office; does not get sick so that its duties are neglected of necessity; is not subject to the many other incapacities that must be expected to, and will, inevitably reach the individual acting in a similar capacity.

The testator leaving a corporate executor to administer his estate knows that his executor will be here to complete the job; that it will be found at a definite place, ready and able to perform its duties day by day and every day until the task shall have been completed. Here, indeed, is a very real advantage. The duties are to be performed at a time when the testator is no longer among the living; he has to depend upon the executor to do in his behalf, for his devisees and legatees, things that are close to his heart and to which he has dedicated a lifetime of effort. Care of the widow or of the orphans, education of children, establishment, maintenance and perpetuation of charities, objects and purposes in the aggregate as varied and countless as human imagination can suggest—he does not want their execution interrupted or prevented by death of the executor, a necessary visit perhaps, to a Mayo clinic or a Johns Hopkins Hospital, maybe a trip to foreign lands on a pleasure jaunt; judgment affected by bad temper, the wasting processes of disease or the catastrophe of accident; senility, maybe, or any of the other ills to which humanity is heir. To a corporate trustee or executor assured long life and good health is inherent and implicit in its form of organization. It requires, indeed, adequate personnel and proper organization which are to be assumed for our

present purposes; and it requires, too, and is related with our next advantage of

Stability

Here we consider not alone financial stability, itself of the utmost importance, but also moral and temperamental stability—what might sometimes be called dependability. Under modern practice and legislative control there are minimum requirements as to capital funds and surplus, safeguards surrounding corporate trust investments, surety bonds, periodic and recurring audits and examinations—all to such extent that losses from intentional wrongdoing or malfeasance by a corporate executor or trustee are substantially non-existent. "To err is human," but intentional human error to the loss of beneficiaries has been, as a practical matter, taken out of the corporate trustee setup. No knot was ever tied so tight that it could not be untied, and certainty as respects human affairs is still a relative term—but the financial stability of authorized and legally qualified corporate trustees, their ability to answer for the property of beneficiaries in their care is not under present-day conditions even debatable or seriously open to question. Not alone public regulation, restrictions, examinations, but self-imposed limitations, additional examinations and safeguards have been combined to make the modern trust company and trust department of a modern bank functioning as trustee proof against loss to trust beneficiaries from malfeasance of the trustee.

The moral and temperamental stability of which I have spoken ties in closely with the further advantage of

Collective Judgment

Action or lack of action by a corporate trustee in a given matter is not the result of impulse or of sudden notion—rather, it results from consideration, study and deliberate judgment, usually, of a group constituting a trust committee, call it by what name you will. This committee acts collectively; it approves or disapproves, authorizes or rejects, and the record of its acts is a permanent archive of the bank. Under its supervision and control are the various employees and officers who actually look after and handle the trust property—available to it is all of the information and data about any given question or matter that the various departments of the bank or trust company can assemble or provide.

In this manner conservative handling is assured; hasty and ill-advised action is certainly avoided and opportunity for secret individual motives to affect handling of trust property is eliminated.

Frequently, and particularly in the larger institutions, this simple trust committee which I have mentioned is elaborated upon and other and additional checks and balances upon all trust activities are provided. Close to those already mentioned comes the advantage of

Experience

peculiarly an attribute of the corporate trustee and executor, and one of extreme importance. No need here for elaboration nor for detail. What to do, when to do it, how to do it, reports, taxes, whom to pay, when to pay, what to pay, insurance, collecting assets, probate requirements, transfer requirements, recording, lending, borrowing, selling, repairing—these are just a start of a long and ever-lengthening list of things to do or, maybe refuse to do, in any given estate. By experience the corporate trustee knows what to do—and again by experience, it knows how best to do it economically, promptly, to advantage. The modern corporate trustee has precedent to guide it in almost every move; it does not have to pioneer, to feel its way carefully over an unfamiliar course—it has been that way before, and for it the course is mapped. And along with experience the corporate trustee has the advantage of what might be called

Good Tools

A mechanic cannot work without tools, and the better the tools the better work a good mechanic can do. In the trust field the individual trustee is almost without tools, while the modern corporate trustee has a full complement of the very best. What are the trust tools—system, adequate accounting and auditing control, statistical service, adequaely trained personnel—indeed, the most of the advantages we are here discussing are also, in fact, part of the tools of the corporate trustee.

Another advantage is

Access to Markets

perhaps a product of experience, but none the less a real advantage. No individual administering a trust estate could hope to have the ready ability to go intelligently into any desired market that is possessed by the modern trust department or company. The qualities of financial strength, permanency and dependability afford prestige; there is the "know-how" that comes from experience, the contacts that come from repetition and continuity of similar work or transactions, the knowledge that comes from adequate factual information—all of these put the corporate trustee in a preferred position with respect to transactions affecting trust property.

But that is enough for the moment of mere listing of trust advantages. There are others—numerous others. And all together they constitute a challenge to the trust executives of American banking. Hardly since the beginning of time has it been given to one group out of a single activity of men to affect so profoundly the growth and development of business, education, research and culture alike as has been given to you men in charge of the trust departments and trust companies of this country. Yours is a sacred duty and a splendid privilege. A duty, in part, to men whose lives have run their course and whose estates you are administering according to the charters set out in their written wills—in part, to living, breathing persons, families of those who have gone before; in part, to persons yet unborn for whom provision has been made and placed in your safekeeping; in part, to the world and civilization itself in charitable and educational trusts for research, health and general welfare work. Your privilege it is to serve—and it is a plendid privilege, indeed.

Perhaps I have stressed a little the testamentary trust, the executorship, as distinguished from the living trust. I have not intended to. Certainly the living trust is no less useful or important than the testamentary trust. The same advantages, the same responsibilities, the same challenge exist with both.

It has been my privilege during a number of years of professional activity as a lawyer to be closely associated with some corporate trustee, to have observed closely the workings of several others, and through this experience to have gained rather full insight into the methods and motives, the plans and accomplishments of corporate trustees generally. It is plainly to be seen that, taking them as a group, through their various officers, they are striving earnestly to merit the great praise of a simple statement handed down to us through two thousand years of time: "Well done, thou good and faithful servant." It is to that group that you belong, whose ideals you are upholding, whose prestige you are advancing, whose place in the business life of the Nation you are making increasingly firm and secure. In the doing of this you have developed and are presenting to your customers, for their use, their help and their assurance, the advantages of the corporate trustee and executor—those mentioned by me here this afternoon, as well as others that could be presented.

At the conclusion of his prepared address Mr. Freeman made the following additional remarks:

As a final remark, let me quote a paragraph from the address made before this Association in 1931 by C. Allison Scully of New York:

> It is small wonder that the most experienced and sagacious business men today are seeking the aid of the trust companies in the management of their investments.
>
> A trust company has all the characteristics which counteract and overcome the disability from which the individual suffers. Through the widespread contacts in the banking department with every line of business and commercial endeavor, domestic and foreign, the trust company is in an enviable position to form a seasoned judgment with respect to general conditions in the security markets, with respect to different classes of investments, and with respect to business conditions affecting the different lines of industry. It has extensive data and information, very often of a confidential nature, not available to the individual investor. Above all else, it has the means to appraise the intangible qualities of a company,

the ability and integrity of its officers, the loyalty and enthusiasm of its employees, and its policy of operation which the general public can never obtain and which so often spell success or failure for the company concerned. Finally, the investment transactions are the result of the deliberations and combined judgment of several individuals and are not subject to the prejudice and weakness which the judgment of any one individual, no matter how well informed or how intelligent, inherently involves.

Gentlemen, again let me express the regret of the Governor of Texas that he is unable to be here. I know he planned to be here, and it would have been his sincere pleasure to be here. In his absence it has been by pleasure and my opportunity to be here with you.

Some Phases of the Trust Business

By Lindsay Bradford, President of the City Bank Farmers Trust Co. of New York

In introducing Mr. Bradford, President Griswold said:

Our next speaker is the President of the oldest trust company in the United States. The original company, now succeeded by the City Bank Farmers Trust Co., was founded in 1822. That was a long time ago.

The President of this institution, the City Bank Farmers Trust Co., is just exactly the opposite of what banking critics consider the proper picture of the head of one of the large banking institutions in New York City should be. When this gentleman was elected the President of the City Bank Farmers Trust Co. he was the youngest bank president in New York at that time.

Mr. Bradford's address follows:

When asked to talk to you today on the subject of personal trusts, I suggested to your Chairman the more inclusive title of "Some Phases of the Trust Business," as that will give me more speaking license to delve into various aspects of the situation which I am certain are bothering most of us to a larger or less extent. The theory and practice of the trust business have been touched on in many previous talks, and the continuing problem of how to invest trust funds has been the subject of discussion at almost every city, State or national convention that has been held. I decided against approaching either of these matters, and particularly the latter one of investment, as I, along with the rest of you, share your problem of wondering what to do under prevailing conditions, and I have no present solution in mind that satisfies both me and our beneficiaries. Hence I do not propose to try to elaborate on the subject to you.

Much has been written and said, in the past, on how to get new personal trust business, how to handle the business we already have, and the general advantages of the many varied kinds of trusts and why they should be created. I suppose all of us have attempted to be convincing as to why they should be created with our own respective institutions. What is bothering me today, and what I am inclined to discuss for a time, is, firstly, whether we have been justified from a profit standpoint in all our exertions in obtaining and handling these personal trusts, and secondly, what we are going to do in the broad future to justify our existence in the changing social order of the day and to meet the new conditions under which the personal trust business may have to be operated.

When I question the wisdom of the effort we have expended in obtaining the business we already have I am referring to the almost ludicrous fact that the chief topic of conversation among all of us personal trust men, irrespective of whether we represent organizations in the large centers or trust departments of small banks—is how to make money out of the personal trust business. I will go even further and say that in many parts of the country there is complaint that personal trust departments operate at a loss.

And this is true in spite of the varying rates of commission that are paid in the different sections of the country. Some are large on income and small on principal. Some are payable in the discretion of the court. Others are small on income and more generous on the principal sums. We constantly commiserate in spite of the fact that in many States rates have been generously raised within the memory of most of us. I can only contemplate with sadness how we should be feeling now had these adjustments not been made, although on second thought perhaps it would have been as well, as by now we should, presumably, have been forced out of the business and the basis for our despondency thus removed. While this question of rates is of the utmost importance from the general angle of suitable compensation for services performed, and while rates should undoubtedly be revised in certain States, I am not satisfied that too low rates alone sufficiently explain our present dilemma.

But I seriously think it is a reflection on our ingenuity and management that we have continued to operate our old business and to exert terrific efforts to obtain new business, thus adding tremendous potential liabilities for faithful performance of our duties yet producing little, if any, net income for our respective companies. Of course I am familiar with the direct benefits which are supposed to accrue to the commercial and deposit end of banking through trust department activities, but I submit that the fabulous investment responsibilities that we trust men have, plus the legal liability of carrying out religiously the terms of the trust instruments, entitle us to be something more than mere appendages of commercial banks, as is true in numberless cases. We should be profitable operating departments on our own account. This is particularly true when we remember that the capital funds of institutions doing both a commercial banking and a personal trust business protect the trust customers as well as the commercial depositors. It is reasonable, therefore, that our trust departments should contribute a proper return on its share of these funds. And in the instance of companies which do solely a trust business, it is discomforting to realize what a substantial portion of earnings come from capital funds and judicious use of earning assets in the shape of trust deposits, plus the income from corporate trust activities and transfer work.

For myself, I am in an inquiring state of mind as to the unsatisfactory condition of the personal trust end of our business, and I think it behooves us all to give this question our closest attention because of the very nature of our corporate organization. We working men must keep the subject of profits in mind.

The question arises at once: Whose fault is it? Shouldn't we all be replaced by men with more resourceful, modern ideas of organization and management who would refuse to manage the accumulated billions left us by our ancestors which bring us either a definit or a nominal profit at the end of each year? And when I put this query to myself and to you, I am familiar indeed with the ancient arguments which we use with ourselves and our associates purporting to prove the impossibility of making money out of personal trust business. It is this conclusion which I am not entirely willing to accept. In many intances I shall plead guilty to having used there arguments—I hope with conviction to my associates, but never with any satisfaction to myself. With no intention of enumerating them in detail, I would but mention as examples the increased costs due to the intricacies of our tax laws, and the additional investment burden as the list of securities customarily held in trusts has enlarged, with investment perplexities and expense thus notably increased. Our recent Federal Reserve regulations also have caused us to set up additional "red tape" in administering our departments.

But I suggest that the personal trust business is not the only one that can produce examples of additional costs in conducting its affairs. I am inclined to think that industrial companies and utility enterprises have had far more than we to contend with since the turn of the century. Yet all of us are familiar with the satisfactory solution of difficulties by many of these companies, as pictured in their earnings results in recent years.

My question is, have we done as well in the trust business? Or is our business alone immune from profits—and I mean good ones commensurate with our responsibilities? Well, if we were to chat with some of our utility friends I do not believe that they would agree with the premise that our problems are more difficult of solution than theirs. Or picture our confusion in trying to be convincing in an argument with the automobile companies, when we proffer the thought that the sit-down strike was a minor detail and that their profits the year of the strike were to be expected. It seems to me also that perhaps the steel industrialists, with their strikes and price differentials, may feel that their business is not entirely free from perplexing problems, and yet they do seem to solve them. It is wrong, of course, to suggest that we have been entirely negligent in our efforts to face the facts. Who among us, I wonder, cannot point with pleasure to examples of decreased operating costs here, increased efficiency there? But if results are a criterion in this world of business, I am afraid we are still found wanting.

I would revert for a moment to the general thought that the trust business is a magnificent one. It has aspects that cannot but appeal to the human interest of us all—the widow with no one to depend on but ourselves; the school boy wanting advice as to his future; the charitable endowments depending on us by wise administration of their affairs to obtain adequate income. It is a respectable business calling for the highest standards from the point of view of faith and character and integrity, and it is a difficult business with sufficient problems and ramifications to call for the best that any of us can produce. It is a big business, for an appreciable portion of the wealth of the Nation is administered by our hands. How absurd to think that it should be performed gratis! And I do not think it necessary that this important service in our particular form of economy be performed without compensation.

I have found amusement in putting on paper my ponderings of the last 15 years concerning profits, and I hope they have met with sympathetic response in your own thoughts. I realize the uselessness of my propounding problems—none of which is new to you—without suggesting at least a partial solution. Frankly, as I endeavored to coordinate my ideas by putting them on paper, I hoped the answer would develop of itself as I developed the difficulties, and if what I say to you seems to you inadequate, it indicates at all events where I am getting in my thinking. Anything I may have said up to this point or may say subsequently is not specifically a result of my own experience, but represents rather the conglomerate ideas gained somewhat from personal experience but more largely as a result of conferences with other personal trust men, over a period of years.

In solving a problem one must first show just what the problem is. Who was it who said we can face any facts as long as we know what the facts are? Our problem here is to decide how the personal trust business can be made to provide a proper profit, and the first question we must answer in order to accomplish this is, what is the personal trust business? When I use the term "trust business," I do so in its highest moral sense. I do not restrict the meaning to funds operated under trust instruments or wills. Our fiduciary senses must be just as keenly alive when we manage our clients' affairs on a consulting basis or perhaps under powers of attorney. The same approach is obviously necessary in the aid that all of us give to charitable and college endowment funds when we are called upon to do so from time to time. To me, in the proverbial nutshell, the trust business is the handling of accumulated wealth in such a wey that the principal is maintained and an appropriate income secured. By the word "appropriate" I intend to suggest that the income should be as large as money conditions prevailing at a specific period permit. We could elaborate that definition from many different angles, but to me it contains the essential point that I desire to bring out, namely: that the management of the property entrusted to us is more important than the legal aspects of the personal trust business, by which I mean the carrying out of the multiple clauses of the trust instrument relating to remaindermen, distribution of income, life beneficiaries, and any other restrictions or proscriptions the donor or testator may have chosen to include.

My observation is that we have put our emphasis and paid out money with the utmost zeal toward a successful administration of the legal aspects of our trust funds without a suitable realization that this is not the phase of trusteeship which should be done on a costly basis. While perhaps there was some justification for this emphasis in the early development of the trust business, the management of property today has become a more complex problem than it was in the old days when most investments were legal or prescribed investments. Hence the proper management of the property entrusted to our care has become a more costly procedure. Under the usual trust department organization this makes the absence of profits no mystery at all. One of our major mistakes has been in our decision as to where the money should be spent in the administration of a trust.

All of us know individuals who operate as sort of professional trustees, and my thought is that although they appreciate thoroughly the absolute necessity of punctiliously carrying out the terms of the instruments under which they operate, none the less their concentration and their primary thinking are on the management of the property handed to them in such manner that they can accomplish for the remaindermen and lift beneficiaries that which the testator desired.

The point I am endeavoring to develop is that while we need competent men to carry out the administration operations of our personal trust departments, we also need the best men we can find in the investment end. If we have such men we shall not only produce better results but I am myself convinced we shall do it at a profit.

All of us must appreciate that absence of investment troubles provides not only the best sales approach that trust companies have, but also the most valuable form of operating economy. I should expect none of us to be able to effect such a change in our organizations—if we agree that it is desirable as a practical matter—immediately, but over a period of years we can all work the problems out and build our departments up on a new basis.

There are innumerable elements, of course, that enter into this particular question whether or not we make suitable profits out of the personal trust business. The lower commission return on the income from trust departments as a result of the widespread refunding of high coupon bonds into low coupon bonds over the last several years is an important element. The current low money market, making it difficult to use our uninvested funds profitably, serves to cut down our income. A relatively fixed expense in the shape of expensive quarters can be liquidated only over a period of time. Our worthy impulses to perform our services with no lowering of standards in the face of current earning difficulties do not serve to increase the net. The legal requirements of our business tend to an expensive inflexibility requiring legislative changes to overcome. These are notably difficult to attain but, of course, are and should be worked out. I disregard none of these factors in my appreciation of the difficulties of the search for profits, and I foresee no prompt solution of them. We can, however, develop a better appreciation of the fundamentals of our business and concentrate our major costs on the management of our property. If property is soundly managed, the comparative details should take care of themselves on a less expensive basis than in the past.

I have gone into this profit situation to some extent because I think it has an important bearing on the second phase of the personal trust business which I shall go into today, namely: the future of the business insofar as we can see it at this time, and our additional social obligations in a changing economy.

It is dangerous to prophesy, but certain taxation tendencies are so evident to us all that it is apparent that the size of new estates turned over to us for administration will be smaller in the future than they have been in the past. The natural curtailment of new living trust business, resulting from the tendency to make gift taxes approach inheritance taxes in amount, has already occurred. This does not mean, however, in my opinion, that the total amount of accumulated wealth that the trust companies handle need necessarily be smaller in the future if we recognize the tendencies now and equip ourselves to handle a larger volume of small business as against our inclinations in the past to prefer a small volume of big business.

We have been slow to face this problem—slower than our contemporaries in other financial and industrial fields. I do not think it is a far-fetched analogy to point out that the original cost of the automobile was far beyond the purse of the citizen of moderate means. Far-seeing executives of the automobile companies saw, however, that their future lay in the decreased costs with increased volume of cheaper priced automobiles, and the advantages accruing both to the companies and to the public are apparent to us all. It is of comparatively late occurrence that large commercial banks have found, through special efficiency of operation, that small checking accounts can be made to pay. Commercial banks took even a greater step when a dearth of large borrowings by industry made them appreciate the possible desirability of making loans as small as $100 to individuals—and it is notable what success they have had. The millions in small loans outstanding today are serving their lenders well. I think it should be a less difficult step for trust companies to organize their business to handle accounts of a few thousand dollars each at a profit to themselves and to prospective clients. We should take this step not only for the selfish reason that a lack of sufficient large business to justify our existence is in prospect in the future, but we should also do it from the broader social point of view that our services should not be restricted only to the rich. I have never been happy at the thought that we should do business with one person because he was wealthy and be less inclined to do business with someone else because he had but moderate means. It is our job, I am sure, to adjust our operations so that we are on even terms with other great financial institutions such as the insurance companies and the savings banks, in making our facilities available to a larger section of our population.

If we do not think seriously along these lines, we have only ourselves to blame if savings deposits go up and the personal trust business down. And we cannot complain if more and more beneficiaries of life insurance policies leave their funds with the companies for administration. We do not complain anyway, insofar as those two agencies offer what the public wants, but I do think the public should have trust services available to them if they want them.

Sporadic attempts have been made along these lines with considerable success, through the medium of common trust funds. But to date such funds have been handicapped somewhat by tax and legal entanglements. It is a great advance in the personal trust business to realize at the moment that the common trust fund has finally been recognized by the authorities as a suitable method of operation and that most of the operation difficulties have been ironed out. Not only is the common fund going to be helpful to us as an economical method of handling smaller sums in trust, but it is going to permit the person of moderate means to receive the skilled management which the trust companies have to offer, at the same time benefiting from the investment diversification to which a large sum lends itself. The criticism leveled against us in the past to the effect that trust management has been reserved only for those with substantial sums, is thus removed. Yet the common trust fund, I think, must not be the only solution for our being willing, and indeed eager, to handle small amounts in the future.

I do not suggest that the personal trust business can be streamlined along industrial methods. We all know too well that differing requirements of different funds may necessitate varying policies.

But small amounts have one obvious similarity from the investment angle. The only approach is the conservative one—it is a continuing anomaly that the need for income in a smaller fund is usually greater than in a larger one—but income must not be obtained at the expense of soundness. Experience proves the fruitlessness of trying. If we trust men believe this theory and convince our clients of its soundness, we will go far toward filling a crying need that exists today, namely: investment facilities, on the soundest basis, for all of our citizens, irrespective of the size of their fortunes.

I said earlier that the trust business is a good business. Better, in fact, than we have permitted the public to know. All of us like a business deal where both parties to the contract win. I think the trust business is like that. With our profit problems solved—and I know we shall solve them over a period of time—the business is good for us. Handled on the sound basis that our experience has taught us is the right basis, it is good for the public. As more and more of the public realize this, I have no fear either for our profits or the volume of our business.

COMMITTEE AND OFFICERS' REPORTS—TRUST COMPANIES

Address of President Robertson Griswold, Vice-President Maryland Trust Co., Baltimore, Md.

President Griswold: Members of the Trust Division, Ladies and Gentlemen: We are very much gratified and very much pleased at this splendid turnout for our annual meeting. A few years ago we felt that we would discontinue the meeting because of the fact that the interest in it seemed to be waning. We are reinstating it again this year and I know the officers of the Division and the members of the Division are very appreciative that you are here with us this afternoon. I notice on the program—and I was decidedly shocked—"Address of the President." The only address which I am going to give you is, care of the Maryland Trust Co., Baltimore, Md. Really, the program should have read, "Report of the President."

As I said, I am simply going to make a rather cursory and brief report of the activities of the Trust Division during the past year.

I think that all of my associates in the Trust Division will tell you that we have had a very interesting and a very successful year. This has been evidenced not only by the splendid attendance at our meetings, particularly the Mid-winter Trust Conference in New York, but by the attendance at the various regional meetings which we have held. Chicago, this year, for the first time in several years, reinstated its Mid-Continent Trust Conference and they had a registration out there of 700 trust men and women, which was the largest we have ever had in the Mid-Continent area. Likewise, in San Francisco, a splendid conference was held under the direction and leadership of Bill Kieferdorf where we had a registration of almost 400 trust men and a very successful meeting.

Just the other day I had the pleasure of going to Galveston for the meeting of the Trust Section of the Texas Bankers Association and they, too, had a perfectly splendid meeting. The opportunity to sit in with these men has really been inspiring.

There is no need to tell the trust men in this room that the ramifications of the trust business are growing rapidly. At the present time we are contacting a great number of agencies which did not either exist or which we did not see fit to contact in the past.

To show you how wide-flung our activities are now, I will just mention a few of the agencies with which it is necessary and advisable for us to be in contact: The American Bar Association, the Committee of the National Conference of Commissioners on Uniform State Laws, the National Association of Life Underwriters, the National Bureau of Casualty and Surety Underwriters, the Bureau of Internal Revenue in Washington, the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System, the office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation. That may give you some idea of how far-flung our activities are.

I want to say that our relations with all of these various agencies are of the very finest kind and I would like to pay tribute here to a gentleman who is sitting in our audience, who is the Vice-Governor of the Board of Governors of the Federal Reserve System, Ronald Ransom. We owe him a debt of real gratitude for his splendid cooperation in our trust problems throughout the past year and since he has been with the Board.

It may interest those among the trust men here today who are members of the bar to know that the new Trust Division of the American Bar Association, section of Real Property, Probate and Trust Law, is now actively engaged in a study of trust law and trust publications and that our Gilbert T. Stephenson, former President of this Division, is the head of the Division.

I want to urge all of you men who are in the trust business, who are members of the bar, if you are not already members of the American Bar Association, to become members of the American Bar Association, and if you are members of the American Bar Association, I urge that you affiliate with the Trust Division. You will find it worth while.

I had the pleasure of attending their meetings in Cleveland last July and they were very interesting, very instructive and well worth the attendance of every trust man.

We are continuing our contacts with the Committee on Unauthorized Practice of the Law of the American Bar Association and with the National Association of Life Underwriters. The Trust Division for a great many years has promoted the idea—the conference idea—with groups of this character, the idea being to sit around a table and get all of the problems and misunderstandings out in the open and to try to smooth them out by conference. That has been very successful with the members of the Bar. Local agreements have been entered into in 35 different localities. We are accomplishing the same objectives with the National Association of Life Underwriters through the Life Insurance Trust Councils, of which there are 11 now formed and I understand that one is now being considered here in Houston.

The legislative problems which we face in Washington are being handled very efficiently, so far as the tax end of our legislative problems is concerned, by Charles Mylander's committee. If any of you have anything you want to take up in the way of tax legislation in Washington, Mr. Mylander would be very glad to be of assistance to you.

We still have with us, of course, the Barkley Bill, which, although it was not passed at the last session of Congress, will probably be introduced this year. Gregory Page, who is the Chairman of our Committee on Mortgage Trusteeships, has done very effective work in collaboration with the Securities and Exchange Commission in framing a livable and workable bill. The bill as first framed, as I suppose you all know, would have absolutely made it impossible for us to carry on the business of acting as trustees under corporate credentials.

I have gotten quite hoarse from shouting around the country what the position of the Trust Division on this bill actually is and the position of the American Bankers Association, as well. There has been a good deal of

misunderstanding and I want to once more say—I think some of you have heard this so often that it will probably bore you—that the Trust Division of the American Bankers Association and the American Bankers Association do not advocate the passage of the bill. They have not been proponents for the bill. We have always felt and still feel today that a system of voluntary control would be sufficient for the purposes but we have an understanding with the SEC that if a livable and workable bill were finally brought out, with introduction to Congress, the American Bankers Association and the Trust Division would not oppose that bill in Congress. I think that states it clearly enough, Mr. Page. Mr. Page, I think, has also become a little hoarse from shouting that. I might say here that we have received the finest sort of collaboration and cooperation from the SEC and I think we should express our thanks to Mr. Douglas and to the counsel for the SEC, Mr. Burke.

In connection with Common Trust Funds, our committee, headed by Carl Fenninger of the Provident Trust Co. of Philadelphia, is about to publish a handbook which will be very helpful to those people who are considering the establishment of trust funds in their own banks in such localities as have provided for such funds by statute. As far as this provision by statute is concerned, we hope and expect shortly to have a uniform Act for submission to the members of the Trust Division so that those States which have not provided for a common trust fund may take advantage of this uniform ct when they go before their legislatures.

I want to speak one minute about the Uniform Principal and Income Act which is being handled by our Committee on Fiduciary Legislation, whose chairman is Richard Stockton of the Wachovia Bank & Trust Co., Winston-Salem, N. C. There are five States which have passed this law now and I believe that in all of those States there is no one who criticized the advisability of having passed that particular form of legislation. I think Mr. Stockton will agree with us that wherever the Uniform Principal and Income Act has been passed, it has been very effective. I sincerely trust that those States which have not adopted it will give it earnest consideration. The Act is now in effect in Oregon, North Carolina, Virginia and Florida—those four States.

In closing, I want to speak a word about Mr. Price's committee. Gwilym A. Price is Chairman of the Committee on Trust Information.

I don't know how many of you have had an opportunity of seeing the letter which was sent out by Mr. Price's committee trying to test out the sentiment for having another National Educational Trust campaign.

About 1922 Frank Sisson, who is very beloved by all of us, who is a former President of this Division and acted as President of the American Bankers Association, took the lead in promoting a National Trust Educational campaign, which I think we will all admit was very successful. We are now trying to sound out the sentiment of the banking officials and trust men throughout the country as to the advisability of conducting another campaign this year or early next year. I sincerely trust that if, as and when this matter is called to your attention, you and the other officers in your bank will give it serious consideration.

Report of Committee on Nominations—Newly Elected Officers

President Griswold: Now we come to the business part of the meeting. The first order of business is the report of the Nominating Committee. Merrel P. Callaway, Vice-President of the Guaranty Trust Co. of New York, former President of the Trust Division of the American Bankers Association, is the Chairman of the Nominating Committee:

Mr. Callaway: Mr. President, your committee consists of Carl W. Fenninger, Philadelphia, Pa.; W. J. Kieferdorf, San Francisco, Calif.; Leslie G. McDouall, Newark, N. J.; James C. Shelor, Atlanta, Ga., and M. P. Callaway, Chairman.

The committee was called by the Chairman to meet at the office of Guaranty Trust Co. of New York at 11 o'clock a. m. on Monday, Nov. 7, 1938. W. J. Kieferdorf advised that he would be unable to be present at the meeting. Each of the other members of the committee was present. After careful and complete consideration, your committee recommends the following for election:

President—Samuel C. Waugh, Executive Vice-President and Trust Officer, The First Trust Co., Lincoln, Neb.

Vice-President—Roland E. Clark, Vice-President National Bank of Commerce, Portland, Me.

Chairman of Executive Committee—Carl W. Fenninger, Vice-President Provident Trust Co., Philadelphia, Pa.

Executive Committee (term expiring 1939)—Carl W. Fenninger, Vice-President, Provident Trust Co., Philadelphia, Pa.; Roy M. Huff, Trust Officer, First National Bank & Trust Co., Tulsa, Okla.; A. L. Lathrop, Vice-President Union Bank & Trust Co., Los Angeles, Calif.; Maclin F. Smith, Vice-President and Trust Officer, Birmingham Trust & Savings Co., Birmingham, Ala.; Sidney F. Tallaferro, Vice-President and Trust Officer, The Riggs National Bank, Washington, D. C.

Executive Committee (term expiring 1940)—Thomas C. Hennings, Vice-President Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.; R. G. Page, Vice-President Bankers Trust Co., New York, N. Y.; Gwilym A. Price, Vice-President in Charge of Trusts, Peoples-Pittsburgh Trust Co., Pittsburgh, Pa.; Grank G. Sayre, Vice-President Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia, Pa.; Frank F. Taylor, Vice-President Continental-Illinois National Bank & Trust Co., Chicago, Ill.

Executive Committee (term expiring 1941)—E. C. Barkley, Vice-President and Trust Officer, Second National Bank, Houston, Texas; Arthur F. Young, Vice-President National City Bank, Cleveland, Ohio; John W. Remington, Vice-President, Lincoln-Alliance Bank & Trust Co., Rochester, N. Y.; L. H. Roseberry, Vice-President, Security-First National Bank, Los Angeles, Calif.; Oliver Wolcott, Vice-President, Old Colony Trust Co., Boston, Mass.

[The above were duly elected and installed and the meeting adjourned.]

CLEARING HOUSE ROUND TABLE CONFERENCE

(UNDER AUSPICES OF BANK MANAGEMENT COMMISSION)

AMERICAN BANKERS ASSOCIATION

Meeting Held at Houston, Texas, Nov. 17, 1938

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Intermediate Credit for Industry

By E. N. DEKKER, Assistant Vice-President the National City Bank of Cleveland, Cleveland, Ohio

We Americans pride ourselves on being resourceful and flexible in meeting changing conditions. We have many examples where industry has found new products to supplement declining sales, occasioned by a narrowing of its former markets or a change in consumer demand.

Commercial banking in America is now facing a similar situation. Changes which have taken place in the business picture in the last 15 years have greatly affected the position of commercial banking in the credit phase of our economy. The nature of these changes indicates that a return to former conditions, under which the banks were called on for short-term seasonal loans in substantial volume, is unlikely to occur. Inventories generally have been reduced, due in part to faster deliveries, which, coupled with a speeding up of manufacturing processes, make it possible to replenish stocks of merchandise in much less time than was required a decade ago. The accounts receivable problem has been reduced by the large volume of sales made on time payment contracts, which are carried by finance companies. The demand for securities which existed during the 1926-29 period made it attractive for many companies to distribute a capital issue and thereby to acquire sufficient equity capital to make bank accommodation, which had formerly been used to finance seasonal operations, no longer necessary.

In addition to these changes which have taken place in our economic picture, commercial banking today is faced with competition from other lending agencies whose interests in their field have been developed in the last five years. Millions of dollars have been loaned to our customers by agencies of the Federal Government.

Insurance companies, loaded with uninvested cash, are seeking profitable outlets for these funds. They have a distinct advantage over the commercial banks in that they can tell from mortality tables what the probable demand for their cash will be over future periods. They are, therefore, able to offer loans to industry on longer term than banks would dare to extend.

Easy money rates have made it possible for the investment banker to develop programs for some of our well-known companies by which they have been able to refund outstanding issues of bonds at much lower rates and pay off existing bank loans. Thus the banker has not only lost a good borrower, but his income from investments has been reduced considerably.

If we commercial bankers wish to replace part of the vanishing commercial loan business, we must take notice of these changing conditions and find a new product for which there is a demand and which has promise of returning a profit. Having found this product, we must develop an aggressive sales program which will uncover or create the type of business in which we are interested.

One product which appears to have great possibilities is the subject for the first part of this conference. It is Intermediate Credit for Industry. To enter this field we will have to change our conception of the function of commercial banking in the extension of credit, namely, that it is restricted to the supplying of short-term credit accommodation.

I believe it is admitted without question that a demand exists for intermediate credit. The uncertain situation in our securities markets, and the expense and delay incident to the registration of a capital issue, together with substantial underwriters' commissions, have practically closed the door on public financing to any but the largest companies. The small and medium sized businesses are forced to find other sources from which to secure temporary funds for capital needs. It is in this field that the opportunity exists for commercial banks. For example, the need for temporary capital on the part of a good company may arise out of a shortage of working capital to take care of a substantial increase in business, the opportunity to add a new product which will provide additional profits, the necessity of modernizing its plant or equipment to enable it to hold profitable business, the retirement of preferred stock, or the refunding at lower rates of high interest debt. If a program of making intermediate-term loans can be developed by the commercial banks, they will, in a measure, be restored to their former position as reservoirs of credit funds. Instead of merely competing for business by endeavoring to attract accounts from their competitors, they will be creating new business, and in some instances will increase the amount of money being used by industry. They may be assisting some local business to expand and employ more men. The benefits from properly made loans of this type are innumerable.

Just what do we mean by intermediate credit? It is credit which is advanced for a period of a minimum of one year to, let us say, a maximum of five years. It fills the gap which now exists in our financial structure between the normal seasonal commercial bank loan and the shortest issue of bonds. It is not an advance of permanent capital. It is true that the funds are used for capital purposes, but such loans should ordinarily not be made unless the applicant's past record and future prospects indicate that the repayment schedule can be met out of earnings.

If a pro forma balance sheet, which should always be made when considering intermediate credit applications, reveals that the capital structure of the applicant will be inadequate, no advance of this nature should be made. Nor should any banker be interested in supporting any business whose future is questionable due to unsound policies or poor management. An effort to do so involves unjustifiable hazard of the bank's capital, and produces no good result for industry as a whole.

In making intermediate-term loans, a new approach is necessary. Repayment ordinarily is not to be expected from liquidation of existing assets. In fact, current assets will turn over many times during the life of the loan. The primary security is earning power. Management, always of great importance, takes on new and added importance when money is to be loaned for a period of years.

In analyzing the annual reports of an applicant for a term loan, certain figures assume added significance when considered from the management viewpoint. These reports should be studied for several prior years. From them must be determined how well the applicant has held its position within its industry and, also, the progress which it has made during the period under review. Careful consideration should be given, in the light of business conditions during the period, to the sales trend, the trend of earnings, the credit policy as revealed by the receivables, and the efficiency of management as indicated by its inventory and receivables position. The disbursement of earnings in dividends, in officers' salaries, and in allocations to reserves will furnish an indication of whether management is conservative in its policies. The balance sheet appraisal of management may be called the tangible factor.

Of equal importance in our consideration of the risk involved in making term loans are the intangible factors of management. Is the business under consideration a one-man business, having at its head a strong individual who dominates its policies and reserves all authority to himself, or does it have a number of capable executives any of whom can operate the business profitably under any contingency? Do its larger customers speak well of the policies of the company and its product? Do its competitors give it a clean record on its operating methods, price policy, and quality of product? Are its labor relations good? Is its dividend policy sound? Does history indicate that, under any foreseeable circumstances, the borrower will be able to meet out of earnings the terms of the obligation for which it desires to commit itself? A thorough investigation of the management factor should be a prerequisite to a sound intermediate-term loan, and such loans should not be made if this factor is found to be questionable.

A complete and careful inspection of the plant, machinery and equipment should be made by a competent industrial engineer. He should study the plant layout to discover whether bottlenecks exist in the operation. He should determine whether equipment and methods are up-to-date. The condition of the premises as well as the conditions under which employees work should be noted. All information revealed by this investigation is important in appraising the efficiency of the management.

Because of the greater risk involved in making intermediate-term loans as compared with ordinary commercial loans, applications from any but carefully operated, efficient units should not be granted. These are just a few of the important details which should be carefully checked and analyzed in studying an application for intermediate credit. Many others, peculiar to each individual situation, will suggest themselves to credit men. In every case the investigation of the applicant should be that of the investment banker rather than that of the commercial banker.

One feature which should be incorporated in every application is a plan which shows the purpose for which the funds are to be used, the anticipated effect on the applicant's business, and a repayment program. If the funds are to be spent for new machinery and equipment, an exact description of the items to be purchased and the cost in detail of such items should be shown in the application. Consideration should be given to the cyclical position of business generally, as well as the trend in the industry of the applicant, in order to determine whether the expenditure of funds for the purpose indicated is warranted, or whether prospects in the near future for business as a whole, or that particular industry, indicate that such expenditure at the time is unwise.

An important feature of every intermediate-term loan should be the formal agreement between the bank and the borrower, which should set forth, among other things, the conditions under which the loan is made, the security, if any, which is given to the bank, the rate of interest, and the steps which the bank may take to protect itself in the event of default. When security is given, it may consist, among other things, of a mortgage on the plant and machinery, warehouse receipts, accounts receiv-

able, listed securities, or the endorsement or guarantee of an affiliated company or responsible individuals. However, many loans of this kind are made on an unsecured basis.

Interest rates will vary according to the standing of the borrower and the program of repayment. Many loans, providing for equal annual instalments, are made on a graduated scale of interest rates. The rate for that part of the loan maturing the first year is usually the rate to which the borrower would be entitled on a short-term commercial loan. On each subsequent yearly maturity, the rate should be increased. Under some conditions a flat rate, in excess of the current rate, may be agreed on for the life of the loan. In all cases the interest income on loans of this type should be higher than the income on current commercial loans.

Many agreements provide that, in the event the borrower fails to make payment when due, the entire balance of the loan becomes due and payable, and the bank may require additional security or liquidate security which it holds, in the event that that action is deemed necessary to protect the bank's interest.

Other conditions written into term loan agreements may require the approval of the bank before dividends are paid to stockholders, before officers' salaries are increased, or before expenditures are made for fixed assets. Other bank borrowing may be prohibited unless such borrowing is approved by the lending bank. To protect the bank against the dissipation of current assets, a minimum net current asset position is frequently specified. Provision is sometimes made to budget the borrower's operations over semi-annual or annual periods, with the understanding that periodic statements will be furnished to provide a comparison between the actual and budgeted results. A minimum current ratio may be agreed upon. Restrictions may be made against the mortgaging or pledging of assets, the incurring of additional funded debt, the retirement of stock or other securities, or the merger or sale of the company. When making unsecured intermediate-term loans, the formal agreement is of major importance and it should contain such of the above restrictions and conditions as are required to safeguard the bank's interest in each individual loan.

We must not overlook the fact that the risk in making intermediate-term loans is definitely greater than the risk involved in making ordinary commercial loans. It is impossible to foresee the changes which will take place between the time the loan is made and its maturity. The farther the maturity is pushed back, the greater the hazards become. I believe, however, that the risk involved in a carefully made five-year loan, repayable in regular instalments, is less than the risk which exists in the investment in long-term bonds. The premium on short-term bonds, coupled with the low coupon rate on the best issues, has made the profitable investment of funds in semi-liquid securities a major problem. To secure a greater return, there has been an increasing tendency on the part of many commercial bankers to invest in long-term bonds. Such bonds are in a vulnerable position marketwise when interest rates harden, and the holder of them may suffer a substantial loss of principal. Intermediate-term loans, properly made, may well be substituted for some of the long-term bonds in bank portfolios, as well as being used for reinvestment of some of the funds realized from maturing issues. If such loans are good loans, no loss of principal will be incurred, and frequently the income from these loans is considerably higher than the income from good bonds.

Because of the serial payment program under which such loans are made, we have a continual turnover of funds which provides a hedge against changing conditions and rates. A five-year loan, repayable one-fifth each year, does not tie up money for any considerable length of time, the average term for the entire loan being three years, and it will return a rate comparable with that produced by the longest-term eligible bonds. The hazard of loss due to hardening of money rates is much less in the case of a loan of this character than it is in the case, let us say, of 30-year bonds.

One very important reason why commercial banks should give serious consideration to this question of intermediate credit for industry is the possibility of further Government encroachment on their business. Prior to the passage of the Industrial Advances Act in June, 1934, which amended the Federal Reserve Act and the Reconstruction Finance Corporation Act, to permit both of these agencies to make direct loans to industry, considerable thought was given by the Federal authorities to the formation of Federal Credit Banks for Industry. That idea is by no means dead. In his recent memorandum to the Monopoly Committee, A. A. Berle Jr. devotes considerable space to the difficulty of the small business in securing funds, and recommends a study of the situation with a view to the ultimate establishment of a series of credit banks. You may rest assured that this idea will be advanced in the next Congress, and will be the subject of much discussion. If we commercial banks are to retain this field free from Government competition, an aggressive program must be developed and Washington must be assured that those who are entitled to credit of the nature which we are discussing can secure it from their bankers. It is my opinion that banks generally have met the legitimate demands of industry along this line. However, no figures are available to support this opinion. A questionnaire by the American Bankers Association among its members, which would show the volume of such loans on their books and indicate the policy of the membership toward this business, might furnish the best ammunition for combating this threat of Government competition. In the majority of cases the pressure for assistance from a Federal agency has come from those who are not entitled to bank credit but whose requirements can only be taken care of by the acquisition of equity capital. While I am satisfied that many situations exist where banks can make intermediate-term loans with profit and safety to themselves and with benefit to their customers and to business generally, we must keep in mind that we do not want a permanent investment in any business; that we are not advancing permanent capital. I am afraid that this distinction is too often overlooked by those who claim that commercial banks have been derelict in their duty to their customers, and by refusing to make term loans have retarded recovery.

A natural question which suggests itself to every commercial banker is, "How can we loan, for a period of from one to five years, funds which are deposited with us subject to withdrawal on demand?" Intermediate-term loans for commercial banks would be out of the question were it not for the fact that there is little likelihood of any of us being faced with a crisis which demands 100% liquidity. Well-made intermediate-term loans, payable in regular instalments, may well provide as much liquidity from the practical standpoint as will long-term bonds, the disposal of which, under conditions of stress, usually involves a substantial sacrifice of principal. Bank depositors generally have a feeling of security because of deposit insurance and the recurrence of the conditions prevailing in 1933, which placed a premium on liquidity, seems unlikely.

As a further safeguard, most loans acceptable to commercial bankers may be further protected by a commitment from a Federal Reserve bank up to 80% or the Reconstruction Finince Corporation up to 90% of such loans, which commitment assures the lending bank that it can promptly secure cash up to the amount of the commitment in the event of need. Because of the addition of Section 10b to the Federal Reserve Act, member banks no longer have to rely solely on eligible paper or Government bonds to secure advances from the Federal Reserve Bank. Under this section, each Federal Reserve bank is permitted to make advances to membrs for four months' priods, secured by collateral which is satisfactory to such Federal Reserve bank. Intermediate-term loans will, doubtless, qualify as collateral for these emergency advances.

While I do not advocate reliance on such safeguards which might give us a false sense of security in making intermediate-term loans, they are nevertheless available in times of stress. Of course, prudence will dictate that a limit should be set on the total of such loans which may be extended by any bank, in the light of its individual situation. Whether this limit should be based on capital funds, a percentage of time deposits, or a percentage of total loans and investments, is a matter for each bank to decide. Over-all liquidity must always be in the fore-front in the consideration of our position in this field.

The bank which actively engages in the intermediate-term loan business will receive many applications for loans which it cannot grant. It can make no greater mistake in turning down an application than to fail to advise the applicant the reason for its refusal. There is always a good reason for the action taken by the bank and, since that reason is sound, it should have no hesitancy in frankly stating its position. If it does so, its customer may be enabled to correct the existing situation which has made his application unattractive to the bank, and subsequently may become a good prospect for a loan of the type we are considering. We are justly subject to criticism if we attempt to avoid this responsibility.

A year ago, in preparing a thesis on this subject for the Graduate School of Banking, I sent questionnaires to about 300 banks of varying sizes throughout the country. Two hundred twenty banks replied to the questionnaire, and of this number 113 had made intermediate-term loans intentionally. In general, the survey revealed that the experience with such loans had been highly satisfactory; that payments were being made as agreed upon; that they had resulted in great benefit to the borrowers; that the banks' income had been increased thereby; and that they had met with the approval of the examining authorities. Regardless of whether we intend to make term loans or not, I believe it is a fact that all of us have such loans in our portfolio. These loans may have been made in good faith as commercial loans but, due to insufficient investigation and failure to make a careful analysis of the probability of the loan's being paid at maturity, it has been found necessary to grant several renewals, all of which have been made at current low commercial loan rates. If, in the beginning, such loans had been recognized as being term loans and the proper agreement and interest rate had been secured, the relation btween the bank and its borrower would doubtless be more satisfactory.

It is my opinion that a careful study of this new type of credit should be made by progressive bankers, with a view to the development of a technique in making such loans which will result in benefit to industry as a whole, and in safety and increased income to the banks.

Augmenting Bank Earnings

By H. H. Griswold, President of the First National Bank & Trust Co. of Elmira, N. Y.

The Bank Management Commission for several years has conducted at each annual convention of the American Bankers Association a Round Table Conference at which the practical problems facing bankers have been discussed. The Commission has endeavored to present for consideration those problems which at the time have seemed most urgent and the solution of which would contribute to the successful conduct of our banking institutions.

In our opinion, banks are facing today no issue more difficult of solution or more vital to their continuous successful operation than that of adequate *earnings*. Bankers everywhere are viewing with concern the trend of income which has been definitely downward for the past several years. There probably has never been a time in our history when bank assets as a whole were sounder than they are today. Our entire banking structure is strong and efficient. Our credit departments are ably staffed. Liquidity, which always has been the mark of a well-managed bank, now has reached a point whre it seems no longer to be commendable but, on the contrary, has brought criticism from the public and from high Government officials as well.

We have cut interest rates again and again. We have improved our methods of analysis of accounts and probably we are collecting from service charges all that we can expect. We have equipped our banks with the most modern devices. Still we are faced with decreasing earnings, and the income from our invested and investable funds is pitiably small.

It is not difficult to trace the history of events which have brought about this decrease in earning power. In the early years of the present century loanable funds of banks were absorbed largely by commercial interests and on short-term obligations. As business concerns grew larger it became easy for many of them to finance their requirements through sales of stocks or in the long-term market. This process has been developed slowly but definitely over a considerable period of years. Although banks were aware of the changing character of their loans, profits were well maintained. Their funds were absorbed readily through loans on collateral which grew rapidly until the collapse of 1929. In the succeeding years loans based on marketable securities were liquidated rapidly and at the same time commercial loans continued to shrink. A survey made by the Economic Policy Commission in 1923 found commercial loans representing approximately 50% of all the bank loans and investments. In 1935 they had shrunk to 21% of all loans and investments, and at the present time the figure is even smaller. To complicate the situation further, deposits continued to grow and a scramble for high-grade investments developed. This brought about a constantly decreasing return until interest on highest-grade short-term securities very nearly reached the vanishing point.

It is interesting to note that the brief recovery periods which have occurred during the past five years have not been accompanied by any considerable expansion of commercial loans, nor would it appear that there is anything on the horizon at the present moment to indicate a material change.

We now face the unpalatable truth that the ever-increasing speed and efficiency of transportation has permanently reduced the need of business, great and small, to carry large inventories. We must be ready to admit

that the ease with which large and strong corporations can borrow in the bond and stock market is having a permanent effect upon their need for commercial loans.

While this had been taking place, something else has happened to our credit structure. I refer to the rapid growth of finance companies which specialize in instalment loans. Some of these concerns have grown to a point where they rival in size many of our large commercial banking institutions, and at the present time are extending loans which run up into the billions of dollars. More recently the United States Government has entered into the lending field, and a constantly increasing number of lending agencies which have the backing of the United States Treasury are our active competitors. This further complicates the situation with reference to bank earnings and, while it is hoped and fully expected that there will be some return toward normal commercial borrowing, there seems little likelihood that it may occur in sufficient volume to offset the shrinkage which the banks have sustained.

The mere fact that our traditional source of income is dwindling should give us no excuse for adopting a defeatist attitude, but it has become necessary for banks to explore other avenues of revenue. We cannot forget, however, our first responsibility is to our depositors and, in developing any policies for the granting of credits, the primary consideration must be that such credits are sound.

The nature of our deposits has been changing, too. Our deposits are largerf interest-bearing time deposits, which are usually of a relatively stable nature. In these circumstances I wonder if we are not justified in giving greater consideration to the earning possibilities of long-term, serially-maturing loans. Because of the earning possibilities of this type loan, we have given the subject of "Intermediate Credit for Industry" a prominent place on our program this afternoon.

In approaching a decision on this question our first duty should be to survey the nature of our deposits, analyze our loan position, and estimate the maximum proportion of cash, short-term high-grade bonds and liquid commercial loans necessary to protect these deposits. The balance of our current funds should then be available for longer-term bonds, properly amortized mortgages, and instalment loans.

It would seem that a good loan, regularly amortized and maturing in from one to five years, or even from one to 10 years, and bearing a fair rate of interest, might be just as satisfactory as a high-grade 30-year bond bearing a lower rate, except for the lack of marketability. But if adequate liquidity is provided by the secondary reserves just suggested, the money should not be needed before the loan liquidates itself through amortization. Under these circumstances the relatively short-term loan may be preferable to the decidedly long-term bond.

In the field of long-term credit a relatively large vista of loaning activities opens before us. While we have held true to our tradition as commercial bankers, we have seen other types of lending institutions spring up and serve a field that might be ours. This is particularly true in the field of instalment financing. Of course much of this business is not available to us because it conflicts with our necessary credit standards. On the other hand, much of it is acceptable and could be handled by us with profit to our institutions and to the borrower at lower rates than he is now obtaining. Those of us who have participated in consumer loans under Title I of the Federal Housing Act have discovered how safe and attractive this type of loan can be.

There are also comparatively untouched fields open to us. Between the long-term mortgage loans and the short-term commercial loans there is a gap. Often commercial borrowers will wish to borrow more than they can repay within a few months, but less than enough to warrant a long-term bond issue. If we are alert to such situations, here again is an avenue that may well prove profitable to the bank and useful to the community.

It now appears that we are on the threshold of another cycle of building, if we interpret correctly the chartists and the reports of residential construction awards. That will mean we shall have opportunities to take sound mortgages.

I believe that there are many ways in which our commercial banks can build income if we are alert to and conscious of changing conditions. This does not mean that we can relax our vigilance over the credit of our borrowers for one moment, but it does mean that we must watch for new opportunities for extending sound loans.

Most of us are well staffed with good credit men—perhaps too well staffed relative to our present volume of business. We are probably equipped to handle loans better than any other institution in our communities, but we are not going to get them by wishful waiting. In the '20s we built up our deposits by aggressive advertising and selling. Is it not time we used the same tactics to build up our loans? We must all of us become salesmen for our credit departments. Our loaning officers must be educated to sell their wares to deserving borrowers.

A bank has but two commodities to sell—service and credit. There is no other organization giving as much for so little cost as the 15,000 banks of the United States. This is the result of years of study, growth and development. Thousands of advertising campaigns and millions of dollars have been spent in educating the public to the excellence of bank service. That this greatest of service selling organizations has been brought to a high standard of efficiency is proved by the millions of satisfied customers who are daily patronizing our banks.

Let us not forget, however, that we have a second commodity; namely, credit, to sell and upon our ability to satisfy the legitimate credit needs of this country depends the future of our private banking system.

Real Estate Loans, Values and Appraisals

By D. Howard Doane, President American Society of Farm Managers and Rural Appraisers, St. Louis, Mo.

If I can correctly interpret the trend of the times, bankers of the future will hear more about, and be more concerned with, real estate than they are today.

At present we are suffering from the extreme reactions of 1929 to 1933, in particular, and from the longer downward trends in farm values from 1920 to the present. This is a good time to take stock of underlying factors. The pressure of investment funds in your hands, in the possession of institutions like insurance companies, and in endowment funds is a part of the picture. It is one thing to say that as a banker you are not interested in non- or semi-liquid investments, and quite another to face the consequences if you stand squarely on that premise. If some way might be found for assuring the investor in a mortgage that its exact terms would be complied with, many attitudes would be changed. It is not probable that this will ever be the case, even though at present certain guarantees make it appear that that end may be in sight.

Therefore it seems to me that we might consider the first part of my subject, not from the standpoint of the loan that works out according to contract, but from its worst angle—real estate.

The best information I have been able to obtain on the effect of ownership of real estate by investing institutions is from the very old endowment funds of England. Here I am told real estate ranks first from the standpoint of safety and certainty of adequate income. Not long ago I was conducting a rural appraisal course in Canada. A representative of the Hudson's Bay Co. called to my attention the elaborate appraisal and ultimate sale of one of the very large English estates. This property consisted of farms, stores, villages and park lands. The successful bidder was England's oldest educational institution, which bought it in its entirety with endowment funds.

In keeping with this one of our largest insurance companies has just purchased 120 acres of land in the heart of New York. All present buildings will be removed and $33,000,000 spent in erecting modern improvements. This will always be a "real estate owned" project, voluntarily entered into on a long-time basis. I could spend the rest of my allotted time telling you of comparable and similar investment of trust funds in real estate.

The essence of real property ownership is management. This is not a part of my subject—already too broad—but it must be recognized as the reverse face of the problem. Real estate management, both urban and rural, is rapidly coming to a position of dependable reliability. This is being brought about by management divisions of banks and insurance companies, but perhaps more widely through the growth of professional farm management organizations similar to our own and comparable organizations in urban and industrial fields. Many of these organizations have long-time records of excellent returns on investments in farms and city property. A number of the insurance companies report a greater net return on their farms owned than on their new and current investments.

May I conclude this sketchy review of this part of my subject by saying: If as new real estate loans are made they are viewed as potential "real estate owned" and their earning capacity carefully determined (this refers to appraising which I will discuss shortly), then, if and when the worst happens to a mortgage, it will in reality become a prime security. Of course the return of the principal investment may be delayed, and this factor must be considered in determining the percentage of this type of investment any one institution may wish to carry. However, regularity of income from mortgage or real estate is a prime factor. With the use of modern appraisals, a sound loaning program, and the availability of proven management, it is our opinion that the bankers' attitude toward the mortgage loan can be safely adjusted in keeping with the host of data now supporting the soundness and safety of mortgages and real estate.

Better than the presentation of arguments is the fact that real estate as an investment has been found sound through hundreds of years in England and is so considered by an increasing number of large investors of the United States.

What I have said on this subject is not to be interpreted as a suggestion on my part that banks should or should not make real estate loans or acquire land and buildings as investments. I am fully aware of State and national laws and examiner rulings affecting these factors. All that I wish to say is that neither farm loans nor farms owned need be a source of worry when proper appraisal and competent management are applied.

Appraisals

One of the most encouraging aspects of the mortgage and real estate business of today is that, for the first time in the United States there now stands behind it a dependable, well-organized appraisal procedure. Urban appraisers organized some six or seven years ago the American Institute of Real Estate Appraisers. A high standard of membership, dependable experience, and a rigid examination are requirements for the degree of M.A.I. (Member American Institute). It now has some 600 to 700 such members who are located in all parts of the country.

The American Society of Farm Managers and Rural Appraisers is about 10 years old. About two years ago this Society began granting titles to those members who qualified by experience and training and who passed a two-day examination. The Society grants the titles of A.F.M. (Accredited Farm Manager) and A.R.A. (Accredited Rural Appraiser). When these titles are granted they are the Society's stamp of approval on the technical ability and ethical standards of the persons on whom they are bestowed.

You will note that, as the name implies, this latter organization includes both farm managers and rural appraisers. Inasmuch as both of them are non-profit organizations having as their objective the professional advancement of their members, I am showing in my manuscript the names and addresses of their officers.*

Appraisal Procedure

All appraisers recognize that all appraisal methods simmer down to but three. They are: (a) income capitalization; (b) reproduction cost; (c) comparative.

An urban appraiser first determines the presumed normal income of a property. From this he subtracts ownership expenses and capitalizes the difference, calling his answer the income value. Let us say that, for illustration, this he finds to be $10,000. Entirely independent of the earning value, he calculates the cost of repreducing the property, subtracts depreciation and obsolescence, and then finds his second value, which in this case we will say is $12,000.

Next he compares the property with others which he feels are comparable, and by this method determines comparative costs, sales and all other comparable features. By this method there is revealed a value of $8,000. With these three values before him he now considers their relative importance and weight, and selects the one as his final value which most accurately applies. It should be the smallest of the three, unless he can show unusual facts for supporting one which is higher. In the case I have used as an illustration he would give as his final value $8,000. Of course all

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his facts and calculations are presumed to be set forth, and normally he builds a logical and well-supported position for his final value.

Rural Appraisers

I had a part in building what is now called the American Rural Appraisal System. It is used and endorsed by the American Society of Farm Managers and Rural Appraisers, many insurance companies, and others. Briefly, its procedure and line of reasoning is this:

Earnings are the most important factor in determining the value of rural real estate. This being the case, it must be determined first and under "typical management," not the management that may be on the property the day it is appraised. Long-time average yields and prices are used, and the prevailing division of crops between landlord and tenant is made the basis for calculating owner's gross income. From this is subtracted owner's typical expenses. The difference is then capitalized and the capitalization shows the earning value of the farm.

The final figure which the rural appraiser sets is called basic value. It is defined as "The worth of a property derived from such economic elements as earnings, location, and home uses."

From this it is clear that after the earning value has been determined, let us say for illustration, at $8,000, there remains two other sources of value which must also be explored. By the comparative method and the indirect use of the reproduction cost method, as affecting improvements, the appraiser proceeds to add to or subtract from his earning value for the other two primary factors of value, i.e., location or other economic value, and home value.

Let us suppose that in his opinion and by comparison the farm has a very favorable location as to roads, markets, &c.; he may add $300. He views the hazard factors, and finds that because of a bad weed or insect pest he should subtract $100. Passing to the home features of value, he sees an unusually fine farm house, yard, and garden, and reflects this by a plus adjustment of say $300. He continues to compare all other home features, such as schools, churches, neighbors and neighborhood influences, and concludes that no further adjustments are warranted. He then summarizes his value as follows. (All details are omitted here although they are of course shown on the appraisal report):

Earnings Value—Owner's gross income	$3.000	
Owner's gross expense	2.600	
Net income	$400	
Earnings value when capitalized at 5%		$8.000
Adjustments—For location and other economic factors:		
Favorable location adds	$300	
Weed hazard subtracts	—100	
For home factors—Superior home, &c., add	300	
Total net adjustment		500
Final basic value		$8,500

Basic and Other Values

Basic value is presumed to be a rather stable long-time value. Of course it may go up or down on a given property which is appraised from year to year, but these fluctuations are slow and do not reflect a specific kind of value for a specific purpose. All rural appraisers first determine basic value regardless of what other value they may wish to determine ultimately.

If an appraisal is being made for a court of condemnation, that court may ask for condemnation value—generally considered from the standpoint of highest and best use. Then the appraiser, after determining basic value, adds to it to reflect the requirements of the definition. Thus, his value for this purpose may be $10,000 or more.

Liquidation value is another kind of value we are hearing about these days. It presumes immediate sale, a large cash payment, and the necessity for sale on the part of the owner. In arriving at this value, then, the appraiser generally subtracts, through a step-by-step process, from his basic value and ends up with a liquidation value of say $6,000, or perhaps less.

Conclusions

I am fully aware that this brief, inadequate sketch does not show you how appraisers appraise. I trust it has given you the feeling that appraising is fast becoming a profession. High standards are being set for qualified appraisers. They are prepared today to do a better job than they have ever done before. They have definite systems which, when properly set forth, show the essentials of procedure. The one receiving the appraisal can follow the reasoning and figures the appraiser uses. Accredited appraisers are attached to responsible professional societies and their records can be checked and their standing determined.

The net effect of all this is to place behind transactions affecting real property loans, purchases, or management, a dependable base for its handling and transfer. It is my feeling that there is no one influence that will contribute to a change of attitude toward real property as a bank or trust asset so materially as sound, dependable appraisals.

Instalment Credit and Personal Loans

By R. ELMO THOMPSON, Vice-President the First National Bank & Trust Co. of Tulsa, Tulsa, Okla.

The subject assigned to me for discussion, "Instalment Credit and Personal Loans," is dual both in title and in practice. I shall present each separately, first discussing personal loans and then instalment credit. Both subjects represent important and rapidly increasing outlets for the employment of bank credit on a profitable basis. Therefore, both subjects deserve attention and the exchange of experiences under the genral discussion of this aftrnoon's forum, "Augmenting Bank Income."

I am confident of the truth of the statement—in spite of the many criticisms coming from high places to the contrary—that banks have never in the history of commercial banking sought so diligently and so persistently, even to the point of open solicitation, to obtain acceptable outlets for the employment of credit as they are seeking today. The reason for this distinct change in approach is the serious need for earnings and the realization by management that increasing deposits left unemployed are a very definite expense and drain on income. The managements of banks from one end of the United States to the other are surveying their respective trade territories to find new and acceptable outlets for bank credit, but the search is revealing few such opportunities. Banks have no power, nor do they have the desire, to force credit upon those who cannot use it safely and profitably.

In this search for opportunities to employ credit many discovered, in almost every place where the search was made, that there were numerous individuals and privately-owned associations who, over a long period of years, have been retailing credit to the small borrower and collecting a rate of interest far in excess of that at which the banker was willing to lend his funds. It was something of a shock to discover that these private lending agencies prospered continuously in good business periods and in bad, in depressions and out, during bank moratoriums and mortgage moratoriums. The record of failures among retailers of instalment credit was nil. It became obvious that the small borrower, with a decent record for meeting his commitments while amortizing his loan on a monthly schedule of payments, had a far more acceptable banking history than many users of bank credit. Then followed the establishment, first, of the personal loan department in many banks to compete for this business; and, in the past few years, of instalment credit, which is wholesale credit to dealers in instalment loans for the purchase of merchandise.

Personal Loans

Personal loans have probably been the subject of more discussions before banking groups and of more articles in financial periodicals than any other matter during the past three or four years. A review of these sources discloses there is little that is new to be presented on the subject at this time.

For the purpose of this limited discussion, personal loans are defined as the granting of instalment loans to individual borrowers in relatively small amounts for a wide variety of useful purposes. Loans are classified under this title whether they be secured or unsecured, and whether they be single-name or multiple-name paper. The distinguishing features are that they are in relatively small amount and are repaid on a monthly amortizing basis, and usually made direct to the individuals. An increasing number of banks have established departments under various titles, such as "Budget Loan Department," "Monthly Loan Department," or "Personal Loan Department," where all loans are handled that are repaid on a monthly schedule, including Federal Housing Title I, and also Title II. Many believe this plan of operation is more profitable, and more efficient in that it relieves the discount and credit departments of considerable detail, concentrates the interviews, investigations, and credit decisions in offices continuously engaged in that activity, and eliminites confusion in the minds of repeat customers, from whom the largest and most profitable part of the business is obtained.

It is not my intention to attempt to convince anyone through a presentation of statistical facts that every bank should engage in the personal loan business. The statistical background, including the known number of banks engaged in the business, the geographical distribution of such banks, the various rules adopted for granting credit, the interest rates charged, the percentages of the losses sustained, the types of loans found to be most troublesome, and the total dollar volume of credits in banks today can all be obtained by those interested in two published surveys known as Bulletins 17 and 74, of the American Bankers Association, prepared by the Bank Management Commission and Savings Division. Also in the published report of the Department of Consumer Credit Studies of the Russell Sage Foundation, which appeared in the November and December, 1937, issues of "Banking." Additional informative material can be obtained from the books of Howard Haines, published by Bankers Publishing Co.

Suffice it to say there were 141 banks operating personal loan departments in 1931, and that by the end of 1936 this number had increased to 673. The latest available figures indicate there are at least 800 such banks today carrying approximately $300,000,000 in this type of credit. The tremendous increase in banks entering this field, as well as the phenomenal increase in dollar credits, has taken place within the past three years. The average losses reported are from zero to 1%. The net profits vary from a minimum of 2% to a maximum too high to mention, with an average of better than 6%. The net earnings vary with the system of interdepartmental cost accounting employed by the various banks. Obviously, this character of business, which for many years was considered by a large number of banks, and even today by a few, as too trivial, too much detail, too risky and too undignified, has proved itself by history and by experience to at least 800 banks. Obviously, too, any outlet for the employment of credit which has proved to be both safe and profitable and has more than doubled the total dollar volume of credits within the past unusual three years, while other outlets were declining, should challenge the thought of all bank management to the point of investigation.

The usual objections raised to the establishment of personal loan departments by those not operating such departments are:

1. The business is profitable only when supported by volume, and it is the belief such volume cannot be obtained.
2. Too many unprofitable interviews and investigations must be absorbed to obtain a few acceptable loans.
3. The increased detail in operations for the Discount Department, tellers and bookkeepers, resulting in the necessity for the employment of additional assistants and thereby unbalancing the profits which might be reasonably anticipated.
4. The increased bank lobby activity on salary payroll days of the month aggravates the present problem of serving large numbers of customers to the point of taxing lobby capacity.
5. The losses incident to handling so many small loans undoubtedly will result in too little net profit to justify the hazard of establishing a new department, new personnel, and the cost of new forms, advertising, &c., which must be balanced against the prospective profits obtainable.

To answer these criticisms, an examination has been made of the practices and the systems used to obtain volume, to eliminate detail, and to relieve the lobby activity. The conclusion reached is that all such criticisms are definitely soluble. The degree of perfection is directly proportionate to the desire of the management that such department operate successfully, and to the intelligent planning and directing of the undertaking.

Volume is ascertainable from the number of regularly employed persons in the community and the number of individuals and associations now engaged in the business. Volume is obtained by newspaper advertising, stuffers in the monthly statements, spot radio announcements, which is the least costly of the radio advertising, and best of all by folders mailed to the homes from carefully prepared direct mailing lists. The expense of such media should not be charged solely to this activity, as it is as much institutional advertising as any other.

Relief from numerous unprofitable interviews can be obtained by advising the prospective applicants in the advertising copy of the terms and conditions under which loans will be granted with such simplicity that they can know in advance whether the terms are acceptable and the requirements can be met.

Much detail can be eliminated by carrying the personal loan department as another department direct with the general books. A very sub-

stantial volume can be handled in this manner with the use of one bookkeeper for the department.

Lobby and teller confusion can be eliminated by supplying each borrower with a book of coupons at the time the loan is closed. There should be as many coupons as payments, each listing the amount of the payment, the due date, and the number of the account. Each payment, accompanied by the coupon representing the amount due, without any other documents, can then be deposited at any open cage, where it is treated as a deposit, and all such credits forwarded to the central teller who enters each day's business as one credit to the account of the personal loan department.

The fifth and last objection is best answered by reference to the experience of a bank with which I am familiar, which employs the methods heretofore narrated. This bank is located in a city of 150,000 people with few large manufacturing industries. There are four banks in this city, and all engage in personal loan business. This bank operates the business as a "Time Payment Loan Department," and it includes therein its Federal Housing Administration Title I and Title II loans, as well as such automobile loans as are made direct to borrowers. Two years ago the total dollar volume of credits in this department was $240,000. The management determined to dignify the activity as a department of the bank and immediately engaged upon an aggressive campaign to increase the volume of business. The result is a total dollar volume of credits that has been built within two years to $1,500,000; and for fear some may believe a substantial portion of this total is represented by FHA Title II loans, I should state that $350,000 is the total amount of such loans. This department is operated by two loan officers, one secretary, and one bookkeeper. The bank operates on the departmental cost accounting system, by which each department is charged not only its actual expense but an allocated portion of the rent, legal advertising, postage, insurance, telephone, stationery, bank examination, and general administration expenses. Under this system it costs $1,700 per month to operate the department, and it still nets $4,500 a month, or a total of $54,000 per year. Obviously, as a department, this showing compares most favorably with many others of the bank such as the safe deposit, exchange, or collection department.

In concluding my remarks on this subject I am of the opinion the personal loan business is a distinctly departmental business for banks located where volume is available. I also reach the conclusion that such departments will succeed best when under the direction of an aggressive, intelligent, capable but younger department manager as opposed to being treated as a place to take care of an employee who probably should be pensioned.

Instalment Credit

In the few minutes remaining the subject of instalment credit will be very briefly presented. This type of business is such a new development, so far as substantial dollar volume is concerned, that as yet no survey has been conducted and no actual figures are available as to the number of banks engaging in it, or the total dollar volume of credits now carried by banks.

This is credit extended to dealers and distributors who sell merchandise on monthly payment contracts with a lien retained on the articles to secure the unpaid balance. Most of such credits have to do with automobiles, washing-machines and refrigerators. The plan of operation and the interest charged is competitive with the finance companies who have held this field almost exclusively for many years. The total credit extended varies with the strength of the primary borrower, the history of his operations, the percentage of margin in the security, or the amount of cash deposit maintained with the bank against which unpaid contracts are charged.

The principal development, and it is rapidly increasing in volume, is among the larger financial institutions in the larger cities of the Eastern, Western and Northern States. The Southern and Southwestern States engage in instalment credit to some extent, but principally with automobile dealers.

The history of this type of business is unusual in that prior to 1929 most banks declined it and encouraged its being taken to the finance companies. Some had suffered substantial losses under the plan then in vogue of advancing credit to automobile dealers. New controls and new safeguards were initiated by the finance companies, and new systems of bookkeeping, as well as capital investment, were demanded by manufacturers of their dealers, with the result that the finance companies weathered the depression with remarkably good records. This history has given instalment credit a new diginity and opened an outlet for profitable business when accompanied by the safeguards which bank management requires.

The current development is attributable to the pressure upon bank management to safely and profitably employ more funds and the willingness of management to handle more detail if it results in earnings. It is also attributable in part to a resentment by some bankers against the practice of furnishing to finance companies at ridiculously low rates of interest credit with which they engage in this type of business in the bank's own territory. It is also explainable to some degree by the recent investigation of the Federal Government of the operating agreements between certain manufacturers and finance companies, which resulted in local dealers having the right to negotiate their credit requirements with local banks.

Figure totals are not available, but some idea can be gained from the fact a well-known bank in Pennsylvania recently broadcast an excellent piece of advertising copy, and among items of interest stated it has 21,409 instalment sales loans for a total of $10,221,335. Undoubtedly the total dollar volume of such credits in banks today is at least $120,000,000, and quite likely much more.

In concluding this discussion of "Instalment Credit and Personal Loans," it can be said both have graduated into important sources for increasing bank income; and both will continue to increase in volume, as will the number of banks engaged in the business. Pride has no place in business, and least of all when one is searching for profits. What many have done with success others may adopt and may reasonably expect to be equally successful.

CONSTRUCTIVE CUSTOMER RELATIONS CLINIC

AMERICAN BANKERS' ASSOCIATION

Annual Meeting, Held at Houston, Texas, Nov. 15, 1938

Another Step in Customer Relations

By DR. HAROLD STONIER, Executive Manager of the American Bankers Association

A new and very interesting feature of the clinic session is coming after my talk. The motion picture which you will see shortly is the direct result of the type of undertaking that Mr. Schwoeffermann referred to in his interview with Mr. Irwin tonight.

Four years ago the Riggs National Bank of Washington started a customer relations program. One of the employees became interested in visual education as applied to banking, and, with the consent of course of Mr. Fleming and Mr. Vass, he was permitted to make a motion picture of the bank. His picture has been shown to many clubs, schools and colleges. It is an illustration of what a bank can do, with a very small outlay of money, to show itself to the general public in a very interesting and perhaps new light. It is a new approach in the field of public relations.

As you travel about the country you often hear people say that they are looking for a public relations program for banking. On behalf of the Public Relations Council, I might say that we are not interested in a particular public relations program; we are interested in seeing that the 13,500 banks comprising the membership of the American Bankers Association all have programs of public relations. What we need is not one public relations program but 13,500 public relations programs. Our primary objective as a Public Relations Council is to be of all the assistance we can to our individual member banks throughout the United States in encouraging them to meet, as they see fit, those public relations problems which occur in the daily contacts they have with their customers and friends in their communities.

Five years ago Mr. Puelicher, who was then Chairman of the Public Education Commission, asked me to talk on Constructive Customer Relations at the Chicago convention. It was in the dark days of September, 1933, when the chairmanship of the Public Education Commission was a difficult position for anyone to hold. But not for one minute did John Puelicher waiver or falter or lack courage in the face of what seemed to be a prairie fire of opposition to banking everywhere. He encouraged and inspired us. It was he who induced the Administrative Committee of the American Bankers Association to lay aside a sum of money in that dark hour to attempt to rebuild the morale of the banks of this country in the face of this prairie fire of opposition which was sweeping the Nation from Washington to the Pacific Coast.

In the five-year period following that time we have found this to be true: Regardless of how much money you spend, or what you do, your program in public relations cannot succeed unless you have six very definite steps, features or characteristics as a part of your activity.

First, you must have officer interest in the program, as has been very definitely illustrated here tonight by Mr. Stout and Mr. Schwoeffermann.

Second, you must have a background of education on the part of your employees. They must know something about the theory of the law and the economics of banking. This training is afforded by the American Institute of Banking. Beyond that, the employees must be taken into confidence; they must be given some basis for their loyalty to the institution. They must know something about the bank—what it is doing with the money it is making, how it is handling its problems. They have a right to know those things, and you cannot expect them to have loyalty unless they do know them.

Third, you must have some form of paid advertising. It might be radio, it might be direct-by-mail, it might be newspaper, it might be magazine, it might be billboard. There must be in every program a place for the controlled voice of business, which is advertising.

Fourth, every public relations program of a bank must provide for some contact with the schools and colleges in the community. It is our fault, gentlemen, if the teachers do not understand the banking system as it operates in our economic world. It is our fault if the students of those schools are being given pink or red propaganda. It is our fault if they do not know our institutions—not banking as a whole, but our individual institutions. May I emphasize again that the thing we need is 13,500 programs—not one. Although it is hard to visualize an abstract thing like banking, it is comparatively easy for the public to understand the First National Bank of Rockville Center. It is our fault, therefore, if our school teachers and our pupils lack an understanding of what we are trying to do.

Fifth, you as bankers must have some contact with the clubs and other organized groups in your communities.

Sixth, you must arrive at an understanding with your newspaper people, your editors. At the American Bankers Association office we know that newspaper editors are interested in news from banks because we have checked again and again. A short time ago we asked the editors of 2,400 newspapers and periodicals in the United States if they wanted us to give them financial news, and they said they did. We have submitted it to them regularly, but what is still more important and what they like better is the news that emanates from the local banks. There are many items of news about a local bank which a banker can give an editor if there is a "news sense" in the local bank.

Those six features ought to and must characterize every successful public relations program of a bank. As Mr. Schwoeffermann pointed out, the Association tries to be of help to its individual member banks on all these points.

At this convention we are introducing for the first time the Public Relations Laboratory. In addition to motion pictures, you will find in the laboratory exhibits of everything we are doing in this field. A gentleman from the New York office will be in the laboratory and will be glad to talk to you about any and every phase of what we can do to help you with your individual problems.

During the past month the Western Division of the Chamber of Commerce of the United States published a lecture series conducted at Stanford University last summer for trade association executives. These men were primarily interested in what they could do to help their members carry on programs in public relations. As a result of the lectures the Western Division of the Chamber of Commerce of the United States published a book entitled "Today's Challenge to Trade Associations." We were very pleasantly surprised when a newspaper release over the country stated that the conference proceedings indicated that the lecturer considered the American Bankers Association's public relations program a model one for trade associations.

A new activity in public relations was added to our program this year at the suggestion of President Adams. When he became President of the American Bankers Association he insisted on two things: First, that the budget be balanced, and second, that we conduct open forums for depositors who wanted to hear talks about economic and banking subjects at our regional conferences which were inaugurated several years ago under the administration of President Fleming.

We were tremendously impressed with the reaction we received to these meetings. Although we were somewhat skeptical at the beginning that they would result in interest on the part of depositors, we found literally thousands of them in all sections of the country who were interested and who did come to the meetings. These meetings have probably been the most outstanding undertaking in our public relations activity during the past year.

When we started our program in 1933 we found that public relations activities of banks were largely confined to a single department. We still believe that every bank should have a public relations department. But who should be in it? Everybody in the bank.

Public relations is a definite part of management. You cannot accomplish a great deal unless you have officer interest. In 1934, therefore, we started these Customer Relations Clinics. Including this one, we have had about 3,500 bank officers attend our clinic sessions.

In 1935 we started the Graduate School of Banking, and we have had 921 men attend that school.

In 1937 the North Carolina Bankers Association, in cooperation with the State Department of Banking and the State University, held an educational conference at the University of North Carolina. The idea has since spread to 11 States where similar activities are sponsored by the bankers associations, the State Departments of Banking, and the State universities. This year about 3,000 bank officers attended the different conferences, every one of which has emphasized the individual responsibility of the officer in the field of public relations.

Since 1934, therefore, we have directly or indirectly contacted 7,421 bank officers face to face with the problem of public relations, regardless of whether they were officers of one department or another, on the fundamental theory that public relations is not an isolated function of some removed department but an active part of the bank management program of every department.

This figure I am about to give you may be startling, but when I analyze it, it is not quite as good as it sounds. Since 1933, when we started the Customer Relations program, there have been between 125,000 and 130,000 Customer Relations conferences held in banks. That sounds like a lot of conferences. It is, but the difficulty is that those conferences have been held in less than 3,000 banks. One bank, for instance, held 500 conferences last year. It is a large bank. Its staff of 1,800 people is broken down into small groups which meet once a week for four months during the year. With only 3,000 banks taking part in the program, we have not brought this activity very definitely to the attention of all the bank employees of the country.

Employees do not want to run the banks, they merely want some basis for their loyalty, and there is no more loyal group in America working for industry, trade or profession than the 266,000 people who are employed in banks. The record of their perseverance, interest and loyalty to business is demonstrated by the statement of our A. I. B. President Barlow indicating that through a period of stress and strain of depression they have taken Institute courses and tried to improve themselves.

In the Public Relations Laboratory you can see how, through radio and through our advertising service, we are contacting some 4,000 banks each year. We are also contacting the public through the newspaper editors and through school and college talks. Some 8,000 of these talks are made each year. It is readily understood why it is very important that they be given by bank officers.

My subject tonight is "Another Step in Customer Relations." During the past two or three years we have made a survey and have found this to be true: That bank customers are talking with your employees and asking them questions about economics. In the past two years this has been particularly true.

In a recent A. I. B. publication, George W. Geuder, a member of Philadelphia Chapter of the Institute, wrote:

"When Mr. John Q. Public comes to your bank, he is not interested in hearing that you have evolved a quicker way to collect his check on some distant point or that you have a new and better style of envelope in which he can send in his mail deposit. He takes those things for granted; he expects you to keep up with your competitors in methods and to make use of the latest systems.

"Rather, he wants to talk over with you the problems of the day—those dealing with economics, politics, and social conditions. He does not want to hear his banker, who should, according to tradition, know most things, express narrow, bigoted opinions or, worse yet, say only 'Oh, yes, I did read something about that'."

What questions are people asking bank employees? I shall mention a few. Is private business doomed? Is monetary inflation coming? Is it coming as it did in Germany? Is our money any good? Is banking a monopoly? Is banking controlled from Wall Street? Why is the interest cut on my savings? Is it true that the banks are not rendering service in this community? Is it true that some great men have said that the banks are not doing the job they are supposed to do?

Bank employees are asking us this question. They do not ask it publicly, but in the quiet of a room where we are having a little friendly discussion: Is there any future in banking? That is the question which strikes me to the quick. For the past 50 years the banking business, from the standpoint of personnel, has been based on the assumption that you could start at the bottom and go up. That has always been a characteristic of the banking business,—one which we could prove. Bank employees are now asking if there is any future in banking, and the question sometimes comes out of a background of great despair.

You can say that no one can answer the questions I have mentioned. You can say that if these questions are asked of an employee, he can refer the person to an officer. But you will not get by taking that position—not for a minute. When such abstract questions are asked of an employee who is, say, 35 years of age and who, while not an officer, is getting a good salary, he is going to answer them. To his circle of social friends at his bridge club or in his church, he is a banker and he is not going to be a dumbbell. He has to answer, perhaps, for no other purpose than to make good in front of his wife or friends. He has to say something. The tragedy is that many times he says the wrong thing. Many times the officers have not talked over these problems with him, and he does not know the answer or an approach to it.

What are we going to do about it? We think we have done something. We do not know whether it is any good or not, but we are going to try it. We have brought out a new series of booklets in Customer Relations. The first one is called "The American System of Free Enterprise"; the second, "Free Enterprise and Democracy"; the third, "How Banks Serve Their Communities"; the fourth, "Everyday Questions About Money"; the fifth, "Inflation and Deflation," and the sixth, "Is There a Future for Banking?" We are not selling these booklets here tonight. They are on display in the Public Relations Laboratory. We want you to see them.

We are distributing, however, here and in the laboratory, this little book which introduces the series and gives you an idea of what it is all about. For the first time in our public relations activity the word "talk" is brought prominently into the picture. In spite of the fact that 90% of public relations is talk, it has never been featured before.

So this introductory booklet is entitled "Talk." Talk on the telephone, talk over the bridge table, talk in the bank, talk at the family dinner, talk over the backyard fence. Talk everywhere is 90%, we believe, of all public relations. We have taken talk—questions and answers—and put it into six booklets. They were prepared by the Public Education Commission, and it has taken us a year to write them. We have tried to show how to answer abstract questions, sometimes by giving a direct suggestion for an answer and sometimes by demonstrating how these abstract problems of economics might be more clearly understood by the bank employee.

We should like to have you see these booklets. We should like to have you take with you a copy of "Talk." It is simply talk about the other booklets and gives our conception of what can be done to meet the abstract but very difficult problem of the economic approach to public relations.

Any librarian will tell you that books on economics have risen in importance. In the past five years their circulation has increased 250%. More people, on a percentage basis, are reading economic material today than ever before, but the sad part of it is that much of the increase in public library circulation is in those books criticizing the system of free enterprise. They are often much more attractively written, much more conversational and chatty in their style. Very frankly, we have patterned "Talk" after the greatest propaganda book ever written against the system of free enterprise. We have taken a book on the extreme left and have tried to adapt the same style to the right. In other words, this is propaganda on the right as opposed to propaganda on the left, but written in a style that we think is very important.

Eleven years ago we met in Houston. I remember the convention well because that was my first A. B. A. convention. I was brought down here by Tom Preston. He looked me over in Houston, and this is where he hired me as Educational Director. I remember that convention well for that reason and, secondly, because that was the year in which the new era probably reached the height and extreme of its popularity. People seemed to think it was going to last forever. The new era, the dear golden days of the late 'twenties?

A few years after we left here it all crashed, largely because there was gambling, excessive gambling, in private credit. Our whole system crashed around us. In the 11 years that have intervened between then and now the poor old American public has been kicked around a great deal in its economic thinking.

The new era economics held that the system of free enterprise was perfect. There was nothing wrong with it. The new era was the finest expression of overconfidence of business that we have ever known. Because we were overconfident of our position we gambled in private credit which resulted in its crash. We meet now in Houston in 1938. We are no longer in the new era of economics; we are now in the midst of New Deal economics. It is difficult to speak of economics at present without getting into politics. In fact, we shall probably have to return to calling economics political economy, as it was called years ago when politics and economics were so intertwined that all economics was known as political economy.

In 1927 we believed the new era was going to last forever; business was perfect. Since that time we have been told that almost everything business has done was imperfect and wrong, and the New Deal economics has taught an entirely new conception of our whole economic order.

The danger, to my mind, the essential danger of the New Deal economics, is that we will crash again unless something stops us. We will crash again for the same reason that we crashed before—gambling. The last time we gambled in private credit, but under the New Deal we are gambling in public credit.

The American people are long on confidence but short on memory. When they are in a situation, they think it is going to last forever just as they did during the new era. Now we have forgotten all about the new era. The New Deal has been with us for a number of years, and perhaps even 10 or 12 months ago it looked as though it were going to last forever. Well, is it? I don't know. But I want to remind you of a historic fact: The American people are subject to sudden changes. The long fight between Jackson and Clay, which went on for years and years, culminated within a period of three months. The fight from 1873 to 1896 on gold or silver finally culminated by a very narrow margin in a period of six weeks' time. The long battle about the League of Nations crystallized within a period of practically a few weeks, and the long drawn out fight about Prohibition, which seemed as though it was going to last forever, suddenly changed. Then there was the question about the war for the long period of four years. Should we enter or shou'd we not enter the war? Finally, within a few weeks' time, the whole sentiment changed.

We practiced new era economics for a long time and the sentiment was that it was going to last forever; but it suddenly changed. Now we have New Deal economics. Is it going to change suddenly? Has it changed—that trend or tendency? We don't know; but whenever it does, you can be sure of this: we are not going back. The American people have been on a mental migration. They have been moving with their minds. They have been on strange jaunts and have had strange views of things. Sometimes they have looked with great favor upon dictatorship, and then they have moved away from it.

It has been a great battle, but I see evidences that the American people are settling down again, that they are through their mental migrations about economic questions. Migrations are successful only when the migrants finally arrive at a point where they again set up the same types of institutions they set up before—different buildings, different dress, different surroundings, but about the same type of institution. We are moving in this mental migration. We will never go back to what was. We never have, and we never will. But I think that when we are through with our mental migration we will settle down again, we will build anew around the institutions of private property, the right of inheritance, freedom of speech, freedom of contract, freedom of competition. We will build around them even though they have new names. We will have a new set of circumstances and a new set of conditions, all of which we must understand, but in the day ahead I think we will again build our economic order around the fundamental principles which have made the Anglo-Saxon people great through all these centuries. So when we meet in Houston again, 10 or 12 years from now—and I hope perhaps in a lesser time than that—we will, perhaps, have a new set of problems and a new set of ammunition.

As we build anew our economic order on the tenets and the principles of the old order, let us see to it that banking has a larger place in the understanding of the people than it ever has had before.

Matter in this Section consisted chiefly of "Interviews" on "Public Education, Customer Relations, Institute Work."

STATE SECRETARIES SECTION

AMERICAN BANKERS ASSOCIATION

Annual Meeting, Held at Houston, Texas, Nov. 15, 1938

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Recent Federal Legislatipn

By D. J. NEEDHAM, General Counsel of A. B. A.

Mr. President and Members of the State Secretaries Section —

It is a great privilege and a pleasure for me to come here this afternoon and speak to you rather informally on the subject of "Recent Federal Legislation," the Washington office, and what-not.

First of all, I want to sincerely express to you men my personal appreciation of the help that you have given to us in Washington during the past two years. Not only does that personal appreciation come from the heart, but I want to couple it up with the sincere thanks and appreciation of the officers of the American Bankers Association as expressed to you here this afternoon at the beginning of this meeting. I know how they feel, that our work in Washington, the work of the Committee on Federal Legislation, the work of the Committee on Taxation, could not be carried on successfully if we did not know and feel that we had the backing of you men in the 48 States and the District of Columbia.

Your job, my job, and the other fellow's job depends, as I see it, upon one fundamental principle, and that is the principle of team work. The Yale oar crew cannot win unless all of those men are stroking in unison. The mighty steam engines, which we now have, streamliners, and so forth—the success of those things depends upon team work. And if I don't say one other thing to you this afternoon, I want to say this, and I mean it: that the Washington office, myself, the staff and the personnel stand ready to help you men in any way we possibly can.

We are subject to criticism. We are not infallible. We make mistakes just like anybody else. When we make a mistake, I think we are going to be big enough to acknowledge it, and we will appreciate your criticism and suggestions as to how to rectify it or what else to do. You can't go down the long road of life alone. I think that is a fundamental principle, and if we can carry on that spirit of cooperation, a spirit of team work, I think we will come out at the right end of the road.

I wish to extend to you men a very cordial invitation, when you come to Washington, to come to the office and make your headquarters there.

I went down to the office the other morning a little after nine. I found our esteemed President, Gordon Brown, at work.

There is another fact in this picture which is quite essential, and it is a very potent factor. It is this: You go through this program today. Take the National Bank Division, the Savings Division, or any other division or section, from the top right down. Then go back about five years and take the same group and see who is there. My point is, gentlemen, that there is no tremendous percentage of turnover in this group right here. You men go on from year to year. You carry on. The personnel of this Section does not change to any considerable degree. That gives it permanency, stability, and continuity of purpose. That is what makes this Section so invaluable to the work of the Committee on Federal Legislation.

In carrying on this work in Washington I want you to understand just exactly how we try to approach this thing.

When I first went down there, Mr. Fleming was Chairman of the Committee on Federal Legislation. He was succeeded by Ronald Ransom, who was succeeded by Robert Hanes, who has been the Chairman of the Committee on Federal Legislation for the last year.

Those men at all times took the position, "If this bill is not right we are going to find out who is responsible for it, we are going to seek him out and we are going to sit down with him and we are going to talk to him and try to show him where it is wrong. We are going to try to get that man (whoever he might be) to realize our position on that bill, or any phases of it."

But this work cannot be carried on alone, as I said to you before, without team work. We have to know the men who are on the important committees—the House Banking and Currency Committee, the Senate Banking and Currency Committee, the Committee on Post Offices and Post Roads, the Committee on Finance, and other committees of that type. We have to know who the key men are. But that is not all.

You will find, gentlemen, in every legislative body that the real legislator does very little constructive work but his secretary or his clerk is the one who does a great deal of this work, and he can be very helpful to you, and to us from time to time. We try to know those people. We try to get along with them, try to help them, and whenever we have asked for anything, I can say to you that we have never as yet been turned down in any reasonable request by the clerk or secretary of any Congressman.

The next thing that I am particularly concerned about is this: Last winter we inaugurated a proposition of sending to you men legislative bulletins from time to time. We have tried to put those bulletins on a very conservative and factual basis. I don't think you can take one of those bulletins and find a bit of gossip in it or a bit of undercover stuff, such as you might find in some other publicized publications which we pay for from time to time. We have received letters from various of you men that this bulletin service is valuable to you, and I want to say that during the next session of Congress we expect to continue that service and we are open to any suggestions you have as to how we can improve it. In fact, we would welcome them.

One other feature of this work I think is quite important and that is this: Oftentimes some man from your State or some group of men come to Washington. They may come here on some particular question that involves their particular bank. They may come to Washington on some particular question which involves a general banking principle. It may involve some regulation not only of the Bureau of Internal Revenue, but of the Federal Reserve Board, the FDIC, or what-not.

My point is that those men when they come to Washington, if they would let us know about it, we might be able to help them. I will give you two examples. I know of one case that happended a few years ago as the result of voluminous correspondence which finally rolled up and got into a snowball and caused a lot of trouble. I know of a case which within the last month has been thrown into the Bureau of Internal Revenue which, if we had had a chance to get hold of it and work it out with the Committee on Taxation, would have saved a lot of correspondence.

Let us get down to some of the legislation which was passed last year. The most important piece of legislation of course was the tax bill, and you are all familiar with that. It is really astonishing to find men representing the United States Government, drafting Federal legislation, who are wholly ignorant of what some other governmental bureau has done or ruled upon. We found that in connection with the tax bill. The House tax bill as it came out would have entirely eliminated the right to charge off bad debts, and when we explained it to those men they saw the point. We explained to them the rulings of the Bureau of Internal Revenue, which gave the Comptroller the right to take those charges off as deductions. We had to educate them to that situation. . . .

The next important proposition which we were confronted with was the Wages and Hours Act. In my judgment that Act leaves the Administrator hanging high and dry, with practically no authority, no funds, and no personnel.

I know you are interested in where the banks stand under the Wage and Hours Act, and I want to tell you something about that. At the time the bill went through, both Houses, Section 1380 or some other section, made no reference to service establishments as such doing intrastate business. That phraseology was put into that bill in conference, and we have every reason to believe that when that bill was under consideration by the conferees they sought information and advice as to the meaning of the term service estiablishments doing predominatnly an intrastate business. They were advised, as we understand, that that phraseology was broad enough to exempt the banks from the Wages and Hours Act. Whether it is or not we don't know but we have tried to give the Administrator the benefit of our views.

There are no cases that decide what is a service establishment. That won't help us a bit. But what we did do was this: We went through the textbooks on banking and we tried to find where prominent men in the banking field who had been writing in that field had used the term "service" to indicate that banks are primarily service establishments. We took all of those and put them together as authoritative statements. We went through the reports of the Comptroller of the Currency to see if the Comptroller of the Currency had at any time referred to the fact that banks were service establishments, and we found a number of such references as to the service which banks were expected to give.

Not only that, but we checked the State stuatutes on bank chartering, to find out if we could, whether bank chartering was based upon the needs for service in any particular locality and we found an astonishing number of those cases.

Then from the New York office we sent a questionnaire to about 80 or 100 banks. We asked them to tell us what per cent of their deposits and checks were interstate and what per cent of them were intrastate. We asked, "How about your loans and your discounts? How about your trust service? How about your safe deposit business?"

The answers when they came back were tabulated, and they showed that the percentage of intrastate business in those four categories in practically every one of those banks ran better than 85%.

The Administrator has all that before hime for consideration.

We have done the best we could, under the circumstances, and I think the Administrator is fair minded. He is going to take a little time to make

his decision on this thing, and I think that is a good thing. I don't think he should do it hurriedly. I think he should give it consideration. And we are very hopeful that when the final answer comes banks will be considered as service establishments and be exempt from that Act.

We have sent to you men all of the bulletins I believe which have been put out by Mr. Andrews, the Administrator of the Wages and Hours Act. We are going to continue to send those bulletins to you because we think that you gentlemen need that information or can use it in some way in your own bulletins.

There was one other piece of legislation with which you gentlemen are all familiar, and that was the extension of the time in which officers may liquidate their loans. That has been extended to June 16, 1939.

The FDIC was given authority to waive its claim to double liability and also the time in which it might make loans or buy assets to save a loss was extended indeterminately. Otherwise, the time limit on that particular feature was July 1, 1938.

That is practically all of the legislation on which we have been working this year, which really culminated in an enactment of Congress.

I want to take a look, if you will bear with me, at what is ahead of us. I think probably one of the most important pieces of legislation which will be considered at the next session of Congress is what is known as the Smathers bill. The Smathers bill, briefly, would do this: It would practically abolish the FDIC or liquidate it and put it into the Treasury Department as an insuring bureau or unit of the Treasury Department. It would centralize all bank examination in the Comptroller's office and give to the Federal Reserve Board practically nothing but regulatory powers. I have very good readon to believe that that bill is receiving some consideration in certain quarters, and it is being revamped and will probably be introduced early in the session.

Mr. Stegall introduced a bill last year increasing the amount of insurance from $5,000 to $10,000. I think you are going to see quite a bit of that during the next year or two. Quite a bit of attention is going to be given to that matter, I think. In fact, in some quarters in Congress you will find a very strong sentiment for insuring bank deposits 100%. Just what will come out of it of course it is hard to tell. But there is a disposition, an underlying current for an increase in that insured amount.

Then you have the small businessman. They are organized. They held a conference in Pittsburgh late this summer. They have a bill drafted which would put the Government into the position of lending to small business in competition with banking.

Right on that point, I want to again express to you men thanks for the service and help which you rendered to the Banking Studies Committee a few years ago in our survey of Government lending agencies. Those questionnaires which we sent ou could not have been returned if we had not had the help of you men and the men in your State Associations. That was very, very helpful. The question of Government lending agencies, I believe, is being studied somewhat by the Research Council, but it is going to be a very live issue, if I am not mistaken, at the next session.

There is also the question of inter-bank deposits—reserve for inter-bank deposits. I think that has a relationship to an underlying current in Congress, which is intended to break down the centralization of credit in industrial or retail establishments. I think it is directly related to the Robinson-Patman bill which was passed, which dealt with discounts, trade practices. In other words, the chain store which is in your city or in your city but operated from a point somewhat remote, is analagous to this whole thing. If New York is the big money center or Chicago is the big money center where all these funds flow, there is a dispotition probably to bring those funds back, maybe to your State, or to your Federal Reserve district. I think we are going to be confronted with that problem, if not at this next session, at some later date.

Branch banking and bank holding company legislation: No action was taken on that and what will come of it at this next session nobody can tell.

You may recal that a couple of years ago the Committee on Banking Studies made a very exhaustive study of the Postal Savings System of this country. Nothing has been done on that because the time was not ripe in the judgment of the officers of the Association to press for legislation on that important subject.

It may interest you to know, however, that during the last six or eight months the total figures of the Postal Savings System have been steadily decreasing. What the reason for that is I don't know, but that is the truth of the situation. . . . There are 45,000 or 46,000 post offices in this country and I think about 8,000 or 9,000 Postal Savings depositories, authorized Postal Savings depositories.

This Federal savings and loan proposition is going to come back. You can just mark that down in the book. But how it is going to come back and in what form it is going to come back is something, of course, that we don't know.

Here is the most ridiculous feature of that bill in my judgment: That bill provided that National banks should have the power and authority to invest in certificates or shares in Federal savings and loan associations. They want to change their name. They want to cut out the word "loan" and make then Federal savings associations. They want to broaden their powers, their investment powers particularly. They want to broaden their tax exemption privileges. They are pretty nearly all exempt now as far as that is concerned. And they want to set up a new standard or formula for liquidation or payment of depositors in the event of liquidation. In other words, they want to put them right on the basis of FDIC banks.

I don't know what is going to happen. But it doesn't make sense, in my judgment, for one Federal agency to be insuring certain kinds of accounts, and another Federal agency doing practically the same work in another field. It seems reasonable and sensible to me that the operations of those various agencies ought to be centralized somewhaere and controlled as insuring Government agencies. I think maybe that might be worked out along some reasonable lines. . . .

Just one word now on the Social Security program. The question of Social Security has been a very difficult one to handle. Our committee handling that problem I think did an excellent job, and, even though I am running the risk of repetition to explain that, may I say in a very few words that here was the problem which they were confronted with: If the Social Security Board intended to put all banks under the Social Security program and give the States power to levy a tax for that unemployment fund, then it was necessary that the language employed be so retricted and limited to the particular problem as not to involve Section 5219. I have heard so much of that since I have come here that I am almost worn out, but that was the problem in a nutshell. It wasn't a question so much, I don't believe, of the adequacy or the efficiency or the worthwhileness of the Social Security program, but it was that particular question of trying to retain the protection which the banks had under Section 5219 and not letting someone pick up the ball and run away with it, and taking what was left.

There is a very important phase of that program which is going to come up for consideration. . . .

You say, What is going to happen? What of the future? Somebody has said, "Watchman, tell us of the night, what the signs of promise are."

Well, I don't know, but I will say this: This country today stands in a position where the major economic industrial and financial problems of this country must be solved, and they must be solved in the right way, and that is the job of Congress.

Banking legislation or any other legislation which deals with a particular industry is wholly incidental and subordinate in my opinion to the great problems of this country which Congress will have to deal with, and in view of that situation it seems to me that Congress will have to get down to work, and there are going to be many changes and revocations after the next Congress gets through with its task.

I would be remiss in my duty if I dod not say something to you gentlemen about Preston Delano, the new Comptroller of the Currency. Many of you men don't know him. He is here at this convention and I would like to have all of you know him. I have become acquainted with him during the past year in a very friendly, informal, and personal way, and I have a very high regard and respect for Mr. Delano. I think he is going to do a grand job in the Comptroller's office. He has a very fine assistant, Mr. Upham. Both of these men possess the characteristics which will carry on the work of the National banks in this country, and I think the country is very fortunate to have Mr. Delano on that job.

As I said at the beginning of my remakrs, I hope that each and every one of you men will feel free at any time to call on me or any member of the staff for anything which we can do for you in Washington.

The A. I. B. and the State Bankers Association

By MILTON F. BARLOW, President of the American Institute of Banking and Cashier of the National Citizens Bank of Mankato, Minn.

This is the first time I have even asked to be put upon a speaking program. The reason I did ask was to gain the opportunity of expressing for the American Institute of Banking an appreciation of what many of you State Secretaries are contributing toward making the Institute's education program available to bankers in the smaller communities. Your efforts have proved most effective.

The figures as of Nov. 7, 1938, show 35 group study classes organized this fall for the first time. These 35 group study classes are 37% of all group study classes now operating. Any A. I. B. organizer who is familiar with the problems involved in getting group study classes started knows that most of the credit for organizing new classes this year should be given you men.

I am thinking particularly of a group study class organization problem in a small Minnesota city of less than 3,000 people. Two banks there have combined deposits of about $1,700,000. Last fall I pinch-hit for the Associate Councilmen assigned to the district, attending a meeting in a local bank lobby one evening—a meeting which was called to consider starting a group study class in that city.

During the evening everything went along smoothly. It developed first that there were a number of bankers interested who, although living out of town, were within easy driving distance, and when it came to a showdown 17 bankers announced that they wanted to take an A. I. B. course. Agreement upon the course to be taken seemed unanimous, and the group even had an easy time deciding upon an instructor. While the enrollment blanks were being filled out a class secretary was designated by acclamation. In fact, when I left town after the meeting was over I thought that the class would be under way in a week or two; I thought that it was already organized and that the opening session would be held in a week or two upon arrival of the textbooks from the A. I. B. National Office.

However, that group study class did not start last year. This is why: I was a stranger to those people, and they did not tell me everything there was to tell. The apparent agreement upon a certain subject to study was no genuine meeting of the minds at all, there having been some feeling between certain bankers whose silence I had innocently construed as acquiescence. It developed that I should also have known that the banker instructor who seemed so acceptable to everyone at the meeting was not desirable at all. Obviously no class could have been started until these difficulties had been throshed out. The significant thing about all this was that the Associate Councilman and I had not been aware of any trouble until it was too late in the fall for a study class to start.

This year the story was different. The Secretary of the Minnesota Bankers Association last summer saw to the appointing of a capable Educational Committee which wisely divided up the State into districts and began work immediately fater Labor Day. Organizations which had just missed fire in previous years were analyzed in the new light of local knowledge, and problems like mine which had defeated strangers were taken in the committee's stride. The city of 3,000 where the Associate Councilman and I had failed the year before saw a group study class of 14 enthusiastically under way before Oct. 1. As a result of this experience and many others like it, our hats are off to you Secretaries who have thus initiated action in spreading our A. I. B. educational program among the smaller communities.

Knowing I'll never get a chance to talk to this Section again, whether I ask to or not, I am going to risk generalizing briefly upon the vehicles which our national organization offers your State Bankers Associations to help them make banking education available in the areas where the banker population is sparse. First vehicle is the group study class. As you all know, 10 students is the minimum number required for organization of such a class, the instructor being employed locally. Examinations are corrected at New York under the supervision of the A. I. B. Educational Director, and the qualifications of the instructor are also passed upon by him. The group study class is at present the most popular vehicle we have.

Second form of organization provided by our national governing body is the branch chapter. A. I. B. chapters are located in every sizable city, there being at the present time 248 of them in operation. Branch chapters are essentially the same as group study classes, but their leaders counsel with the city chapter leaders who are within easy driving distance instead of with the Institute's National Office. The number of branch chapters

is increasing rapidly, though as yet there are not very many of them. This new development is something for you to watch, because it provides an opportunity to unload upon the city chapter leaders the burden of organizing study classes every fall in those communities which happen to be within easy driving distance.

The third vehicle is the State-wide chapter. Wisconsin has one in addition to several ordinary chapters located in the larger Wisconsin cities. Wisconsin State Chapter is 21 years old and is living a commendably useful life, judging from an impressive annual increase in the number of its students. Going beneath the surface, we find that the Wisconsin Bankers Association office is so arranged as to provide the extra help needed in carrying on the operation of this chapter, which is actually a far-flung aggregation of study classes, none of them being located in centers of any considerable bank population. The same advantages of local servicing are enjoyed by the State chapter which are enjoyed by the branch chapter.

Years ago the A. I. B. national organization did not favor State chapters for reasons which were valid at the time. These reasons no longer carry the force they once did, and you will find the national organization nowadays wholeheartedly approving well-conducted State chapters. By well-conducted we have reference to the making of sensible provisions in your offices for the extra burden of this activity, provisions which give the State chapter a chance to function properly. The advantages to a State Bankers Association resulting from spending the money necessary to thus enlarge its office are two: first, the country bankers will find the A. I. B. educational program more easily and more surely available to them, and second, the men who should be running the Association within 10 years will through familiarity with its office be better fitted to work with you as Association leaders.

Don't misunderstand me. The national organization does not recommend any one of these three vehicles as better than another. We understand that what would be best adapted to Texas probably wouldn't work in Rhode Island, and therefore urge you men to make your own selections, letting local factors determine your choice.

Nationally speaking, it is almost shocking to see how little any of these vehicles have been used as yet. For every 44 city bankers taking advantage of the A. I. B. educational program this year there is only one country banker who is finding it available. The surface has only been scratched by all past attempts to satisfy the very evident desire of country bankers for banking education. Whether or not country bankers are permitted to share this learning with their fellows in the city banks is in the final analysis something which will be determined by the future actions of you State Secretaries. Those among you who have already accomplished much in your States I thank again for impressive help—all of you I thank for having let me come before you and for having listened so courteously and attentively to what I could tell you from my own experience about A. I. B. banking education and the smaller communities.

COMMITTEE AND OFFICERS' REPORTS—STATE SECRETARIES SECTION

Discussion Incident to Address of Milton F. Barlow on the A. I. B. and State Bankers Associations

Mr. Coapman: May I say a word on this subject while it is fresh in your minds?

From my experience with the individual Secretaries and through the Central States Conference for several years, I realize what work falls on the State Association office. I know various associations are interested in various things. Some give their attention primarily to legislation. Some are taking up very thoroughly the customer relations program. Various functions are performed in various States—some more, some less. Some have quite a State-wide program.

We are interested in constructive customer relations in our State, as many of your States are, but it seems to me it is putting the cart before the horse to expect the younger men in banks to represent their institutions individually or officially, however they may meet the public, and know very little about banking theoretically, or the legal side of banking, economics, and all the various phases of business life, which are studied by the A. B. A. It seems to me it is almost impossible to do the job right in that way. The Constructive Customer Relations program could not compete with that of the A. I. B. We make that very clear in our State, and we have handled this two-horse team pretty well, I think.

It seems to me, as one Secretary who has the assistance of a director of public relations who is giving his sole time to other matters and two girls in the office, that an association office other than ours that has a reasonable staff could do something with the Institute.

As my first suggestion—I was thinking of putting it before you in the form of a resolution, but I thought it over again and I am giving it to you as a suggestion with which you can do as you please—I do think the least the Association could do—also in the face of these university conferences, group meetings and county meetings—is to call the junior officers and the interested senior clerks together in some central place, either State-wide or in districts, for a one-day conference to discuss banking education, and get them acquainted with each other.

There are 92 group study classes in 29 States. Some States have only two or three. Minnesota and Wisconsin are tied for first place this year. I guess we will have a neck-to-neck race for some time. Oregon has five. Iowa has nine. Texas has eight.

My point is that if you will get these young people together and have someone there to tell them what Institute work is like, particularly where you have group study classes, and weld them together in a State-wide organization, so they will not be working by themselves this year, next year, and then drop out the third year because they don't know anybody in another part of the State that is doing similar work. You can see what a handicap those young people are working under when you realize that the senior banker has a county meeting, a group meeting at the State bankers' meeting, and all that goes with it, and conferences, and so forth.

I think if you will think this thing through you will discover that the junior banker who is coming along deserves consideration. You can't give your attention only to the senior banker. I don't feel it is fair to them, nor to the good that your Association can do to assume the attitude, "We haven't the time or the money." Our Association of Wisconsin gives the State chapter $300 a year. One of the stenographers gives considerable of her time for a month or so in the office to the clerical work. I go out and help organize the classes. We have some bank men in the State who are serving as Associate Councilmen, particularly a couple of the fellows who represent the city banks, and on their calls they work on this proposition. So don't let the thought that this new thing is going to take 50% of the Secretaries' time and a lot of money disturb you.

I think that Mr. Barlow has put the proposition before us very clearly, and I for one am strong for it. I would like to see the Secretaries Section take some stand on the proposition that they ought to hold a conference of the junior bankers some time during the next year and bring in those in your State who are now in group study classes. See if you can't egt them interested in an organization of the work for the following year. And if you con do so and will, set up some similar organization for them, not a junior bankers association, but bring them into a little organization which is sponsored by your State Association along the lines that are recommended by the American Institute of Banking. I am sure you will get all the cooperation you need from New York. . . . In our State we have seen them [the young men] grow up into positions of responsibility in their own institutions. One or two of them are on our Executive Council and some Institute graduates have been presidents of our State Association. That has done no harm to us. In fact, they have given good administrations, and the whole thing helps banking as well as the individual.

Think that over and do something about it.

Mr. Beerbower: Mr. Coapman, may I add a word to what you have said: that at the meeting of the Bank Management Commission, Sunday afternoon, the matter of regional clearing houses was discussed very extensively, and it was felt that that was still the greatest medium of benefit in local bank work over a number of counties or trade areas. As I see it, the establishment of these group study classes could be most effectively organized and promoted through these regional clearing houses. A great many States have them and, as I have said, it is to be the effort of the Bank Management Commission to increase the number of regional clearing houses all over the United States. It seems to me that would be the solution of the establishment of these group study classes.

Address of President W. Gordon Brown, Eexecutive Manager New York State Bankers Association, New York City

Recognizing the increasing importance of Government and corporate bonds in the earning assets of the commercial banks of the country, this Section recommends the appointment of a Committee on Bond Portfolios by each State Association to study the problem of the selection of securities and the management of portfolios by our members.

As the volume of bonds held by the banks has increased, so has the volume of loans tended to decrease or to remain stationary. We are fully conscious of the development of other lending agencies such as building and loan associations, industrial banks, finance companies, factors, licensed lenders, credit unions, and Government-sponsored credit agencies for agriculture. These institutions have developed to meet a need and have survived and grown because they have met that need.

We therefore request that the American Bankers Association undertake a thorough study of the methods of such lending institutions to determine whether the types of loans which they make can properly be handled by the banks.

It is our belief that the banks of the country must broaden their facilities to serve a larger part of the population. We believe that through personal loan departments, the lending function is being made available to the masses by a substantial number of banks and through the no-minimum balance or pay-as-you-go checking accounts the deposit function is being made more widely available and that the social usefulness of banks is being promoted. We submit that the next great step forward must be the development of trust facilities for the man of moderate means. It may well be that the common trust fund will offer the solution in the trust field.

Our Section this year appointed a Committee on Retirement or Pension Systems which have been organized by five State Associations. It is our belief that the organization of such systems in each State represents uneconomical and unnecessary waste and duplication. The history of the system in these five States indicates that unfortunately such forward-looking plans under present conditions appeal to only a limited number of banks in each State. We therefore urge the American Bankers Association to undertake a study of the possibility of creating a nation-wide retirement system under its auspices. To mention only one advantage of such a step, a nation-wide retirement system would help to raise bank management to a professional status. We believe that such a move would receive widespread support from those State Associations which have not yet organized retirement systems. The college professors, Federal Reserve banks, Y. M. C. A., Y. W. C. A. and ministers of various churches and National bank examiners have such nation-wide systems in successful operation. There is no good reason why the banks should lag behind. In fact, they should lead in such a constructive social program.

Following the example of our fellow Secretaries in the Central States, an interesting and potentially valuable step has been taken by the Secretaries of the New England, New York, New Jersey and Pennsylvania State Associations in the organization of the Down East Secretaries Association or the Yankee Bankers. This new organization has held two meetings under the leadership of Harold Welch, Secretary of the Connecticut Bankers Association, and we believe it will perform a useful service.

We express our appreciation of the increasing help rendered to us by the officers and committees and headquarters staff of the A. B. A. We pledge the cooperation of ourselves and our 49 State Associations with the A. B. A.

Report of Committee on Investment Portfolios, by Chairman Don E. Warrick, Secretary Indiana Bankers Association, Indianapolis

When President Brown asked me to accept the Chairmanship of this Investment Portfolio meeting I realized that while it was a tough assignment I felt (and I believe that history proves the point) that it was a subject in which every banker and banking association executive was intensely interested but about which no one professed to know all of the answers excepting members of that one social stratum known as "Bond Salesmen" but traveling under such aliases as "Analyst," "Investment Counsellor," "Research Investment Advisor," &c.

And so, recognizing that my own limitations were more of a general rule rather than an exception, I accepted the responsibility. My associates on

this Committee have taken a somewhat similar view. The members of this Committee impressed me with their own earnest seriousness that the State Secretaries devise some means of helping with what we all recognize as the most perplexing problem facing us in the banking profession.

Using this as a premise what can we as trade association executives do?

There is one thing we might as well admit to begin with and that is whether we think it the thing to do or not our banks are going to continue to buy bonds. Some purchase them for investment and some few buy them (much as we deplore it) for speculation. Bankers are pretty generally educated to the fact that general market bonds should only be purchased for a bank investment portfolio as an investment and that they have no place in the classification of secondary reserves.

If you will pardon this personal reference I have been speaking to county banker meetings and talking to our bankers individually in Indiana along the line that the average and small sized banks should not purchase general market bonds for any reason. In my opinion the only banks capable of intelligently purchasing general market bonds are those which can afford to employ at least one good man properly equipped who will devote his entire time to the investment list.

It is my personal thought that these banks which are not large enough to maintain this type of a man can with better and more promising results follow an asset set up and operating policy such as this:

First, pay no more for deposits than the bank can afford to pay—regardless of regulatory maximums, practically all banks should be paying less interest for deposits right now than regulations permit;
Second, reduce loaning rates if necessary and go out after short-term seasonal farmer loans;
Third, install small payment-loan departments and put someone in charge who can with experienced intelligence make these types of loans with a follow-through and policing that permit the bank at all times to keep on top of the situation;
Fourth, install adequate service charges recommended by the bank's own State association or the A. B. A.;
Fifth, purchase some Government bonds well-spaced as to maturity for a secondary reserve and some municipal bonds for earning investments;
Sixth, make some good real estate mortgages on an amortized basis and within a reasonable amount.

It is my thought that bankers generally, average size and small, know something about this type of banking. They certainly will be able to sleep better following this outline of operations than trying to guess on the bond market.

These are my personal opinions and I do not wish to leave the impression that my associates on this Committee agree with these views, I will say, however that each member of the Committee has been sent a copy of this report some two weeks ago.

But as I said in the beginning bankers are going to continue to buy general market bonds and so we must deal with the situation as it is.

It would be my opinion that several of you Secretaries have been presented with the suggestion that your association set up some type of a statistical bureau on bonds for the benefit of your members. We in Indiana have had this proposed to us but our Council of Administration has not deemed it wise or advisable to attempt this service. The reasons are obvious and I doubt if any of you would like to see the Association with which you are connected attempt this service. Too many times bankers' interpretation of service in relation to bond portfolios is advice as to when to buy and sell.

From all of the information of which I am in possession the most constructive service which has been set up to help banks with their investment portfolios was first established by the Banking Department in the State of Minnesota. This was originally called to our attention in Indiana about three years ago by our friend and a member of this Committee, William Duncan Jr., Secretary of the Minnesota Bankers Association.

Quoting from a speech which the present Commissioner of Banks, of Minnesota, Robert D. Berry, gave before the Supervisors of State Banks, in New York, Oct. 8, 1937, he says:

"My philosophy of supervision finds excellent expression in the words of H. Sloan Colt, one time President of the New York Bankers Association, when he said, 'It must be clear by now that lasting improvement in the banking system can rarely be obtained by legislation. The futility of trying to substitute arbitrary rules and laws for sound business judgment has been amply demonstrated. That is why a project wherein the men actually operating banks undertake to make a careful analysis of the banking problems is so important and may bring productive results. We have tried legislation for a 100 years; let us now try research and analysis.' "

Further quoting Mr. Berry:

"My distinguished predecessor in office, Governor Elmer A. Benson, saw this very well. Accordingly he investigated with great care the results of a survey made by the University of Minnesota and published under the title of "A Type Study of American Banking." This study confirms his belief that much of the grief that beset bankers, particularly with respect to their bonds came from investment illiteracy rather than from wilful violation of conservative banking practices. The means which he saw to the end of eradicating investment illiteracy was through intelligent research in order to appreciate the problems created by a poorly conceived and unwisely executed investment policy and then through the dissemination of information which would lead to the proper conception of an investment policy."

Further quoting:

"Determined to proceed along these lines, Mr. Benson appealed to the School of Business Administration of the University of Minnesota for assistance.

"Through the efforts of the investment counsel in publishing the "Financial and Investment Review," which is a monthly publication, criteria that are useful in the selection of securities are placed in the hands of bankers. Investors are thus equipped to differentiate between good and bad bonds. By virtue of continuous scrutiny of examination reports on the part of the bond analyst, dangerous investment habits are quickly detected and the offending bankers are called into conference for the purpose of explaining the reason for the department's concern. The principal duty of the bond appraiser and his assistant is to assign values to securities that reflect the true condition of the portfolio. Our experience has been that small issues with restricted marketability are less desirable to bankers when carefully appraised than when they are given nominal valuations and permitted to be carried at cost of acquisition.

"Our approach to the bond problem is unique, then, because: (1) we place in the hands of our country bankers bond investment standards that are easy to understand, simple to apply, inexpensive in their derivation, and effective in carrying out their purpose; (2) we examine investments with the view of setting up exceptions in the same manner as we go through loans and discounts; and (3) we have made the Banking Department a source of information not only on matters relating to specific bond issues but to matters of broad investment policy. We have never recommended the purchase or the sale of any single bond issue, and, indeed, we never will. We have never sought to impose our judgment on a banker who showed any intelligence whatsoever in investment matters.

"I am not unaware of the possibilities of danger inherent in my program. Perhaps bankers will refuse to absorb the lessons we try to teach them; perhaps bankers will misuse the degree of freedom from burdensome restrictions and indulge in a speculative orgy; perhaps bankers do not have the courage to conform to the rules in use in this new era of bank management which we are trying to inaugurate. The only alternative, of course, is regulation. I feel certain, however, that by virtue of our educational endeavers that any program of regulation we may be forced to sponsor will be superior to the regulations which are promulgated without benefit of research.

"I believe that this group—The National Association of Supervisors of State Banks—can well afford to give serious thought to cooperative efforts along the lines I have suggested. Unless we have our banks in better shape when the next major business recession comes than we had in 1931, the dual system of banking will not survive and all the advantages of such a system will be sacrificed to still the clamor of an outraged public for a better credit mechanism."

I like particularly Mr. Berry's attitude when he points out:

"We have made the Banking Department a source of information."

When Herman Wells, now President of Indiana University, was Supervisor of State Banks in Indiana he became very much impressed with this far-sighted and constructive program launched in Minnesota.

When he was selected as the Dean of the School of Business of Indiana University, he worked out between the Indiana Department of Financial Institutions and the School of Business of Indiana University a similar program to that of Minnesota.

The Indiana program works as follows: When a State bank is examined the bond list as reported by the Bank Examiner is keyed, withholding identification as to the name of the bank, and the list is turned over to the Investment Bureau of the School of Business of Indiana University. Here the list is classified as to maturity, diversification, marketability and ratability. In addition to this some comments are outlined dealing with the underlying and fundamental principles named above. This report is then sent back to the Department of Banking with a copy sent by the Department to the bank under examination.

This system assures independence of thought, analysis and classification with those making the analysis interested in selling nothing. No axes are being ground. The bank is the beneficiary of unbiased and honest thought.

The Investment Research Bureau of the School of Business of Indiana University sends out to State banks a bulletin every month. Only recently we used one of these in our Hoosier Banker for the benefit of the National banks in Indiana which are not on the mailing list to receive these bulletins.

The Indiana Department of Banking pays an annual fee to Indiana University for this service.

When Herman Wells approached the Indiana Bankers Association some three years ago in seeking advice as to the advisability of launching this program in Indiana we frankly all regarded it as the experiment which it was. Today I can truthfully say that it has worked fine and we are all very proud of it. It is one of the finest systems of carrying on an intelligent educational program in relation to bond portfolios in banks that bankers have had.

Permit me to point out its appeal; the bond account of each bank is the subject matter upon which the text is based in carrying this education to the banker. The banker can much more readily and with the unusual personal interest in his own bond account apply the principle of a sound investment program to his own personal problems.

Please do not let me leave the impression that our Indiana banks are all free of bond and investment problems but we do believe much has been accomplished and we really anticipate further favorable results.

Several States have made inquiry about the Indiana program and I am sure that the same is true of Minnesota. This shows the interest which this Minnesota program has created.

In my humble opinion this type of program could well be studied toward a possible adoption in other States. At least I believe that every Secretary could include some program of this type in helping to lend some assistance to the banks of his State.

If the State Secretaries could by some means induce the bankers of their respective States to study and explore religiously the booklet on Investment Standards and Procedure as compiled by the Bank Management Commission of the American Bankers Association in relation to Commercial Bank Management it would be a worthwhile effort. This booklet labeled number 19 was prepared by two members of the Bank Management Commission in the persons of J. Harvie Wilkinson Jr., Vice-President, State-Planters Bank & Trust Co., Richmond, Va., and Adrian M. Massie, Vice-President, New York Trust Co. It is a splendid contribution and the A. B. A. Bank Management Commission is deserving of all our thanks.

Thank you,

Respectfully submitted,

H. B. CRANDALL
WILLIAM DUNCAN JR.
HAYNES McFADDEN
G. HAROLD WEST
DON E. WARRICK, Chairman

Report of Committee on State Bankers Association Management, by the Chairman, David M. Auch, Secretary Ohio Bankers Association, Columbus, Ohio

I am glad to be able to tell you that it [the report] is going to be brief because as I read it you will see that it is a supplement to a rather complete report which this committee made at the spring meeting at Edgewater Park, and we incorporate the contents of that report in this final report almost entirely by reference rather than repetition.

The report of the Committee on State Bankers Association Management which was submitted at the 1938 Spring Council Meeting dealt in general with the subject of mutual cooperation between the State Associations and the American Bankers Association.

At that time a number of suggestions were made. Since the suggestions were set forth in considerable detail, the committee does not feel warranted in restating them herein, but desires that they be incorporated in this report merely by reference.

It does seem proper, however, to reiterate our belief that it is highly important that there be as complete integration of the efforts of the State Associations and the American Bankers Association as is possible. It is only through presentation of a unified front that organized banking can be fully effective in its efforts to solve the many problems of mutual concern to both the State organizations and our national association.

The committee calls attention to the fact that true cooperation cannot be unilatural. Any program involving the pooling of interests in a common cause can be successful only when it is characterized by a display of forbearance and reasonable compromise on all points of difference by all concerned. It is urged that this fact be kept constantly in mind.

It is a pleasure to report that the committee finds that unified action as between the State Associations and the American Bankers Association has gone forward measurably since presentation of the previous report. A number of the suggestions made at that time have been put into effect. we believe, to the mutual benefit of all participating organizations, and there is no reason to assume that further progress cannot be made.

For the advances made to date we desire to express thanks and appreciation to President Adams and Executive Manager Stonier for the fine spirit of helpfulness and consideration which they have displayed and to commend the executives of the various State Associations for the important contributions they have made.

Particular notice also should be taken of the prompt service which has been given in connection with legislative and other governmental matters

by the Washington office of the American Bankers Association. We believe that we bespeak the feelings of all State Secretaries and the officers of their respective associations when we express to General Counsel Needham our thanks for keeping them well informed, and urge that the valuable bulletin service now in effect be continued.

A notable development of recent months was the organization of a third regional conference of State Bankers Association officers. The new conference embraces the State Associations located in the northeastern section of the country. Two meetings were held during the summer and fall, with another planned for a later date. The committee repeats its recommendation that State Secretaries, to whom the benefits of such an organization are not now available, consider the desirability of conferring with their confreres in surrounding States in regard to the possibility of establishing a medium through which they can obtain consideration and discussion of common problems.

It was not possible for the Committee on State Bankers Association Management to hold a formal meeting during the period covered by this report. Therefore it was necessary to use the mails in an effort to obtain material for additional recommendations. The single suggestion received was to the effect that when the American Bankers Association sends a copy of a letter or other communication to the office of a State Secretary, it bear a notation indicating to whom the same letter is being mailed. If it is possible to do this, considerable correspondence and duplication of effort might be avoided.

Doubtless those who were not recently contacted have other suggestions. If so, the committee welcomes them and will be glad to consider them and present them to the proper officers of the A. B. A.

In connection with the establishment of additional conferences of State Association officers, I might report that I have had a talk with Mr. Scarboro, the Secretary of the Colorado Association, since my arrival here, and I think some progress has been made in the direction of forming another conference for the West Coast States and those contiguous thereto. We hope that that will go ahead.

Report of Committee on State Legislation, by Chairman C. C. Wattam, Secretary North Dakota Bankers Association, Fargo, N. D.

Mr. Chairman, Members of the Secretaries Section and Guests:

Up until the time when we came to this meeting our Legislative Committee had very little to report. However, yesterday, in attending the session of the Legislative Council of the State Bankers Division, I did pick up some information which I think will be of interest to you. After giving the report as written prior to coming here, I will cover a few of the matters taken up at that time.

The same lack of activity in State legislation as was evidenced by the report of this committee for the period preceding the spring meeting seems to have prevailed during the past six months, due, no doubt, to the fact that no Legislatures have been in session during the interim, and there must of necessity, therefore, so far as adverse and antagonistic legislation is concerned, have been a closed session on banks and banking.

This being the case, the only report which your State Legislative Committee is able to make with respect to State legislation is in the form of a recommendation as to what, in the opinion of the committee, is the best way to handle legislation which may be proposed with respect to banks and banking, or which may directly affect banks and banking, at the coming session of the Legislature in each State.

With elections over and Legislatures soon to meet, under conditions not materially improved over those prevailing during the past several years, the interest of bankers everywhere in legislative matters should and will undoubtedly quicken, for the reason that we must under such conditions expect a recurrence of the efforts so common in recent sessions the country over to correct all economic ills by legislative action.

Measures for moratoriums for payment of debt, or extensions of those heretofore enacted, reduction of interest rates, elimination of deficiency judgments and personal liability on real estate mortgages, restrictions as to chattel security, and many more measures are bound to appear at the coming legislative sessions.

The demand for legislation of this type on the part of people who, by reason of the depression, recession, or any one of many numerous causes, find themselves in straitened circumstances, is not to be wondered at, particularly in view of the efforts of many politicians to seek to ride into office on prejudice engendered through proposals of this type.

With conditions as they are, people in financial difficulties are not easily interested in arguments that legislation of this type does not give the relief expected; that it simply operates to restrict credit, prevents the return to normal conditions, and deprives them of an opportunity to obtain such credit as might enable them to make a new start toward business and financial stability. They do not seem to appreciate the fact that each new bill of this type simply limits further the number of people who may be extended credit.

Many people are encouraged by the unscrupulous politician to default in their obligations, and are making no attempt to envisage any improvement in conditions which, with adequate credit facilities, might make possible their own business and financial rehabilitation, and they have in numerous instances lost all sense of any moral obligation with respect to the payment of creditors, and do not even expect or anticipate similar accommodations in the future. Their demands are only for legislation which will protect them from their creditors and enable them to escape from the payment of their present obligations.

How long this condition will continue we cannot say. How long it may take to correct this situation by a repeal of this type of legislation so destructive of the moral fiber of our people and contributing to the disruption of business conditions is exceedingly problematical.

Undoubtedly, when the present generation succeeds in ridding themselves of what to them seems like an impossible burden of indebtedness, and passes out of the picture, and the younger generation begins to appreciate what these restrictions on credit mean to them, there will come a demand for restoration of these credit facilities by the elimination or repeal of this restrictive legislation.

The thought occurs to your committee as to whether it is necessary to wait for such a demand to materialize. Is it not possible to hasten the day somewhat by a little personal and individual effort on the part of each banker throughout the country? There will be many new faces in the membership of each State Legislature soon to convene. Experience in legislative matters leads us to believe that very few of these men will approach the new session with any thought or design in mind of injuring, restricting, or tearing down the credit facilities of the people of their State. You will find very few of these men who will not be willing to discuss freely the effect of such legislation upon the credit facilities of their constituents. There will be very few among the membership of any legislative body who are not depositors in a bank and intimately acquainted with some member of the staff of their home town bank.

If these men go to the Legislature uninformed with respect to the effect of measures of this type, swamped as they will be by hundreds of bills on many different subjects, they are bound to be influenced and directed by the illogical arguments and half-truths of the demagogues with respect to this type of legislation.

With a little individual effort at the outset, it will be possible to set many members of our State Legislature straight on the effect of measures of this sort. Why not assist in eliminating the danger of this hysteria which aims at economic improvement, but which only results in restriction of credit? Every banker in every legislative district in this country should meet the legislative members from his district prior to the meeting of the Legislature, and discuss with them thoroughly all such legislative proposals. It can do no possible harm, and unquestionably will be of immeasurable assistance to your Legislative Committee. If your Legislative Committee is proposing any new legislation for the improvement of banking conditions, a thorough understanding of such measures by the legislators through previous discussion with their home town banker, in whom they undoubtedly have confidence, should contribute materially to bringing about favorable reaction with respect to the measure.

If it is legislation destructive to credit facilities such as has been experienced in many recent sessions, and can reasonably be anticipated in the coming session, a preliminary discussion with the members of the Legislature and knowledge on their part of the possible effect, should assist materially in preventing its enactment into law.

We recommend that these suggestions be by each association passed on to its individual members; that an outline of anticipated legislation be given to such members, and that they be requested to discuss the same with the representative from their respective districts, and report the results of such discussion to their State Legislative Committee.

Remarks following presentation of report:

Mr. Wattam: With respect to the information I picked up yesterday, there are three matters which that session had been considering and which I think are of considerable interest to the members of this Section.

The first deals with the proposal by the Federal Deposit Insurance Corporation to fix an adequate yardstick for fidelity bonds carried by banks, with the possibility of imposing upon directors a financial responsibility and liability for failure to comply with this yardstick. There was considerable discussion upon this matter before the State Bank Committee, and it was unanimously agreed there that the matter should be deferred until the spring meeting for further discussion, and to give the committee and the General Counsel, Mr. Needham, an opportunity to take the matter up with the FDIC.

I think that this is a matter in which the Secretaries can be of assistance to Mr. Needham and this committee, and it would be my suggestion that the incoming President appoint the Chairman at least of his incoming committee for this Section before we leave here, so that that Chairman can have an opportunity to discuss with Mr. Needham the manner in which we can best cooperate with him in handling this situation.

The question also came up in that session of some legislation to be recommended whereby there could be some restriction on the chartering of banks, for instance where a State authority refused to grant a charter, the national department might grant one, or vice versa. I think it was agreed that some legislation of that kind would be desirable.

One other point that came to my mind in connection with that meeting was a suggestion that we might pass on to the national officers by way of assisting and cooperating with them: that the Chairman of the Legislative Committee of this Section be made a member of the Legislative Committee of the State Bank Division. In that way both would be in touch with what the others were doing, and might assist materially in coordinating their efforts.

President Brown: That is a good idea. Thank you.

Report of Committee on Study of State Bankers Association Pension Plans, by Martin Graettinger, Executive Vice-President Illinois Bankers Association, Chicago, Ill.

Your Committee on the Study of Pension Plans operated by State Bankers Associations, for the purpose of the compilation of these plans for the benefit of State secretaries, makes the following report:

An inquiry was addressed to the Secretary of each State Bankers Association asking for information with regard to any such plan in operation in his State by the respective association and for copies of any literature used in connection with the furtherance thereof. As a result, 46 replies were received, classified as follows:

- 22 States have no pension plan;
- 17 have committees appointed to study the subject;
- 5 have plans in operation;
- 2 are expecting to begin operation soon.

With respect to the latter two classifications, there is attached to the report a tabulation making a comparison of the several plans which can be studied by those who are interested.

To summarize, there appears to be very little difference among the plans tabulated; six are underwritten by old line life insurance companies and one, New York State, is a plan worked out by the New York Association and is to be administered by a Board of Trustees, the same to go into effect on Jan. 1, 1939. As to the latter, W. Gordon Brown, Executive Manager, states that this method was chosen for the reason that thereby additional benefits could be provided for bank employees not incorporated in the plans of the insurance companies and, further, to reduce the cost. The additional benefit provided is a disability annuity granted in the event that an employee becomes totally and permanently disabled after 10 years of service. In addition, this plan provides a payment of one-half year's salary to the beneficiary of an employee who dies before the retirement age, plus the total contributions made by that employee to which interest is added.

The insurance companies' plans are so closely alike that if you describe any one of them you have covered them all. Their chief purpose is to provide a pension, or annuity, to bank employees at the age of 65 for men and 60 for women, which will give these employees a livable income. This income, in proportion to their past salary, varies with the length of time that contributions have been made. Where these are for a short period of years prior to retirement, the amount of annuity is small, but where they cover a longer period, which would be the case with the younger employees, the amount of annuity is considerably increased. For example, if a man, earning a monthly salary of $250 enters the plan at age 35 this annuity at age 65 is approximately 45% of his salary during the years of his contributions. It will be noted from the tabulation that the monthly contribution of the employee, which is duplicated by the employing bank, varies slightly from $9.00 a month to $12.50 a month.

All of these plans provide for an adjustment of the amount of contributions made by both the employer and employee in the event that the employing bank is subject to the Social Security Act.

In view of the opportunity offered to the banks in these five States for providing annuities at the retirement age of their employees, and the rather disappointing number of participating banks, it would seem that the plans are not as popular as the promoters of the same had reason to believe. It is possible that this small number may be due to the short time these plans have been in force, but for the number of banks existing in these five States, it would appear that only Washington has made a fair showing.

One of the Secretaries, in whose State the installation of such a plan is contemplated, has said that:

"We realize that all of the State Bankers Association programs with reference to pension plans have failed to sell themselves and that we shall have the same problems here because we do not want the company calling on the banks and giving them the high pressure, although admittedly they could sign up a number of institutions that would not go in because printed or mimeographed circulars describing the plan do not get the job done. Visitation to the bank seems necessary and, perhaps, several recurring trips which means an extensive selling program."

Another stated in his reply that:

"Such a matter was agitated about two years ago. A committee was appointed and after a little work they reported at one of our meetings that because of the Social Security Act they thought the matter should be held in abeyance."

Another stated that:

"The rates for annuity insurance had been increased, or rather the benefits have been decreased (practically all of the companies readjusted their rates for interest credit on July 1, 1938, because of the declining market returns from investments) and if our plan is not completed by Sept. 30 we cannot have advantage of the old rates and, in that event, the matter will doubtless be dropped for the present at least. Prospects are exceedingly encouraging up to the point of getting signatures on the dotted line and, at that point, the interest wanes."

Here is still another to the effect that:

"While our Association has made quite a thorough investigation of pension plans, it has this summer decided not to do anything more with the plan until it is known whether or not the new minimum wage and maximum hour bill is to apply to banks. If it does, it may so increase the banks' employment overhead as to make it not feasible, at least at this time, for banks to attempt to tax themselves further by which to set up a pension plan."

It is very obvious that but few of the banks having the opportunity to participate in pension plans for their employees have availed themselves thereof because of reasons similar to those cited and perhaps because of the general business conditions which have prevailed since most of these plans were first put into operation. There is a matter of expense incumbent upon the bank in the nature of the contributions made in addition to those from the employees, practically the same as in the case of employers subject to the Social Security Act, and it would seem that when a proposal for a pension plan is submitted to the directors of the bank there is a hesitation to pass favorably on the same because of this expense item. In closing this report we quoted from an address made by Armitt Coate, Secretary. New Jersey Bankers Association, which I believe is one of the pioneers in this bankers' association pension plan movement, as follows:

"Many banks, particularly the larger institutions, have for years had some form of an old age retirement pension plan for their employees. For several reasons, especially the difficulty of working out any such plan in a small bank, retirement pensions are rare in smaller institutions. When the Federal Social Security Act was passed, it brought sharply to the attention of bankers, bank employees and the general public the entire subject of old age retirement. To bankers who have done any thinking at all about the hazards of old age, it is obvious that some adequate provision should be made. Those of you who are connected with institutions which have been operating for 30 years or more have observed employees through infirmities of old age become problem cases in your own banks. You are then faced with the necessity of continuing to pay a salary to the employee for services incommensurate with the amount paid or of following the much less desirable and humanly difficult course of dropping him entirely.

"All equipment, all machinery that enters into a business is depreciated or its cost amortized over a period of its useful career. Certainly the human beings, the motive power behind a growing institution—the brains—the experience—the loyalty—should have at least the same provision made as that accorded inanimate fixtures. The bank employee is expected to maintain a reasonable high standard of living and is usually unable to accumulate a sufficient amount of savings to enable him to exist for more than a limited period without his position or other financial assistance.

"Therefore, the motive for instituting a pension plan is the material advancement of both the bank and its employees and it can be erected on a foundation of mutual self-interest and understanding. The best interests of the employer become the best interests of the employee—their objectives are harmonized and become identical."

We, as a committee, recommend a very thorough study of the principle underlying the pension plans now in operation. Quoting Mr. Coate again:

"Bank officials are responsible primarily to stockholders, but it is within their right and it is a part of their duty to formulate and install any plan or method which will solidly build and strengthen the corporate structure against the known and unknown emergencies of the future. It seems that a pension plan worked out to fit the requirements of a particular territory must eventually, in fairness, be adopted by all bankers."

Believing that the State is the logical unit for bankers' group pensions, we commend a pension plan, along the lines of those in operation, to all State Bankers Associations economically adapted to their member banks with less than 50 employees.

Respectfully submitted,

A. H. Coate, Secretary, New Jersey Bankers Association.
W. Gordon Brown, Exec. Manager, New York State Bankers Association.
W. F. Keyser, Secretary, Missouri Bankers Association.
H. C. Pfund, Secretary, Oregon Bankers Association.
M. A. Graettinger, Exec. V.-Pres., Illinois Bankers Assoc. (Chairman).
Nov. 15, 1938.

President Brown: Thank you very much. Gentlemen, you will find, at the end of this report, that this committee has done a very thorough job of analyzing the pension systems in operation, or shortly to be in operation in seven States. It is a very thorough analysis of the provisions of the plans that have been adopted.

Mr. Auch: Mr. President, have arrangements been made for furnishing copies of that to all State Secretaries? I would certainly like to have one, and I imagine a good many of the others would like to have copies also.

President Brown: We can arrange it so that you will get that.

Oregon

Date plan adopted, Jan. 1, 1936. Company underwriting plan, Aetna Life. Banks contribute with employees. Past service, optional. Age of retirement, male, 65; female, 60. Type of annuity plan provides, Life annuity, no refund; employee may choose refund or joint and survivorship plan. Death benefit, employees contribution, plus 3% interest; bank receives no refund for its share. Withdrawal benefits, employee may choose paid-up annuity or total contributions, plus interest after four years. Provision is made for adjustment of plan if bank comes under Social Security law. Cost of contributions for male employee earnings $250 monthly, entering plan at age 35, employee, $9.60 monthly; bank $9.60 monthly. Annuity payable at retirement to above employee, $108.00 monthly.

New Jersey

Date plan adopted, Jan. 1, 1937. Company underwriting plan, Prudential. Banks contribute with employees. Past service, optional. Age of retirement, male, 65; female, 60. Type of annuity plan provides, life annuity no refund; employee may choose refund or joint and survivorship plan. Death benefit, employees contribution, no interest; bank receives no refund for its shares. Withdrawal benefits, employees contributions with 3% interest after three years. Provision is made for adjustment of plan if bank comes under Social Security law. Cost of contributions for male employee earning $250 monthly, entering plan at age 35, employee, $9.00 monthly; bank, $9.00 monthly. Annuity payable at retirement to above employee, $112.50 monthly.

Illinois

Date plan adopted, Nov. 1, 1937. Company underwriting plan, Equitable. Banks contribute with employees. Past service, optional. Age of retirement, male, 65; female, 60. Type of annuity plan provides, life annuity, no refund; employee may choose refund or joint and survivorship plan. Death benefit, employees contribution plus 3% interest; bank receives no refund for its contributions. Withdrawal benefits, employee may choose paid-up annuity or total contributions plus interest after four years. Provision is made for adjustment of plan if bank comes under Social Security law. Cost of contributions for male employee earning $250 monthly, entering plan at age 35, employee, $12.50 monthly; bank, $12.50 monthly. Annuity payable at retirement to above employee, $119.85 monthly.

Minnesota

Date plan adopted, Sept. 1, 1938. Company underwriting plan, Conn. General. Banks contribute with employees. Past service, optional. Age of retirement, male, 65; female, 60. Type of annuity plan provides, life annuity, no refund; employee may choose refund or joint and survivorship plan. Death benefit, employees contribution plus 3% interest; bank receives no refund for its share. Withdrawal benefits, employee may choose paid-up annuity or total contributions plus interest after four years. Provision is made for adjustment of plan if bank comes under Social Security law. Cost of contribution for male employee earning $250 monthly, entering plan at age 35, employee, $12.50 monthly; bank, $12.50 monthly. Annuity payable at retirement to above employee, $119.95.

Washington

Date plan adopted, Sept. 1, 1938. Company underwriting plan, Aetna Life. Banks contribute with employees. Past service, none. Age of retirement, 65. Type of annuity plan provides, life annuity, no refund; employee may choose refund or joint and survivorship plan. Death benefit, employees contribution plus 3% interest; bank receives no refund for its share. Withdrawal benefits, employee may choose paid-up annuity or total contributions plus interest after four years. Provision is made for adjustment of plan if bank comes under Social Security law. Cost of contribution for male employee earning $250 monthly, entering plan at age 35, employee, $10.40 monthly; bank, $10.40 monthly. Annuity payable at retirement to above employee, $117.00 monthly.

Montana

Date plan adopted, not yet in force; hopes to start by Jan. 1, 1939. Company underwriting plan, Equitable. Banks contribute with employees. Past service, optional. Age of retirement, 65. Type of annuity plan provides, life annuity, no refund; employee may choose refund or joint and survivorship plan. Death benefit, employees contribution plus 2½% interest; bank receives no refund. Withdrwawal benefits, employee may choose paid-up annuity or total contributions plus interest of 2½%. Provision is made for adjustment of plan if bank comes under Social Security law. Cost of contribution for male employee earning $250 monthly, entering plan at age 35, employee, $12.50 monthly; bank, $12.50 monthly. Annuity payable at retirement to above employee, no information.

New York

Date plan adopted, not yet in force; expect to start Jan. 1, 1939. Company underwriting plan, their own plan; private trust incorporated by Insurance Department of State; managed by Board of Trustees. Banks contribute with employees. Past service, optional. Age of retirement, 65. Type of annuity plan provides, life annuity equivalent to value of accumulated contributions of employee, plus interest, and pension equal to annuity provided by employee's contributions with interest at age 65. employee may choose refund annuity or joint and survivorship plan. Death benefit, one-half of one year's salary plus employee's contributions, plus interest. Withdrawal benefits, employee's contributions with interest, or privilege to reenter plan if he enters employ of another bank during two years following withdrawal from first bank. Additional benefits provided by this plan, income in the event of total and permanent disability occurring after 10 years of service. Such income will be paid so long as disability lasts. Cost of contributions for male employee earnings $250 monthly, entering plan at age 35, employee, $10.00 monthly; bank, $11.80 monthly. Annuity payable at retirement to above employee, $105.65 monthly.

Report of Bank Management Commission, by Fred B. Brady

The Bank Management Commission has had laid into its lap this question, among many others of interest to its bankers: the matter of protesting checks of $10 or under, as it now stands. We want to raise that minimum from $10 to $50, and I would just like to read a couple of pages of my report which I presented to the Bank Management Commission on protest fees, which will tell you better what I have in my mind.

Realizing that the chief purpose of protest is to afford legal evidence of presentment and dishonor in the event of a lawsuit; that the number of suits entered for amounts less than $50 is exceedingly small, and that there seems to be an entirely disproportionate relationship now between protest fees and the amounts of many checks protested, the Bank Management Commission at the spring meeting of the Association in 1938 appointed a committee to study the question of protesting checks for the purpose of raising the minimum amount of checks subject to protest from the present $10 to $50. The committee was requested to make a report at the next meeting of the Commission.

Our first step was to get an expression from the Federal Reserve Bank. This was done through J. S. Walden Jr., Chairman, Standard Committee on Collections. Fortunately, Mr. Walden lives in Richmond, Va., the home of Harvie Wilkinson, one of our committee members. Through him, by personal contact and by letter, we found Mr. Walden very sympathetic with our proposition and he gave his personal opinion that such a change would be agreeable to the Federal Reserve Bank if it were suggested and recommended by the member banks.

In the beginning it was also necessary to get an expression from a cross-section of the banks of our country. We did this by sending a questionnaire letter to the banks in clearing house centers throughout the United States, in which we asked the following question: How does your institution view the proposition of raising the minimum on items subject to protest from the present $10 to $50? In other words, protest only the items of $50 and over, unless they bear the official "No Protest" symbol by the A. B. A.

We asked two other questions at this meeting. This letter was sent to 1,166 banks in 133 cities in 44 States. Replies were received from 574 banks. A tabulation on question No. 1 shows 460 of these banks or 80.1% were favorable to the proposition of raising the minimum to $50; 90 banks or 15.7% were opposed; 9 banks, or 1.6%, were neutral; 15 banks, or 2.6%, had other suggestions

The two principal reasons for opposing raising the minimum of protest fees from $10 to $50 were the loss of income from protest fees, and the thought that it might increase the number of checks drawn against insufficient funds.

Several banks are in favor of a proposition revising the present procedure and protesting only those items that are "foreign" bills of exchange, that is, checks that show on their face that they have been drawn in one State and payable in another, and those that bear on their face a protest symbol.

The thought has also been advanced that inasmuch as practically all banks are using some form of depositors' agreement on their deposit slips, signature cards, or passbooks, indicating the terms under which items are deposited, that there might be included in this agreement a waiver on the part of the depositor of protest on all items under $50.

This cross-section of banks gives an idea of what is to be expected if all banks are asked for their expression. Your committee realizes that we may expect more resistance from the smaller institutions because it will decrease the revenue which they are receiving as protest fees.

That, in brief, is what the Bank Management Commission has in mind. We are not trying to force this proposition on any one. The purpose of the Bank Management Commission and the purpose of this committee is to find out if the banks want this done, and if they do, why of course we want to get it universally adopted through the American Bankers Association. What we want now, since we had a favorable response from these larger banks in the clearing house centers, is to see if we can get an expression from the banks in your various States, and we thought that the best source or channel through which we could get this information would be through your offices.

We are not asking you to do this volume of work which is necessary to get this information. We are willing at the central office of this committee to furnish you the subject matter for these letters. All we would want you to do would be to mail this out to the members in your various States, because going out over your signature it would have so much more effect than going out from the New York office. And as the replies are received, you would file them with the New York office. From that information we can determine whether or not it is worth while to go ahead with this proposition. If the banks want it, we will try to give it to them. If they don't, we will simply drop it. As I say, we are not trying to force this on the banks at all. We are trying to render them a service, if they think this is the thing they want to do.

Mr. Chairman, my object in coming before this meeting at the direction of the Bank Management Commission is to see if you people would be willing to send these letters out to your membership and get the replies and send them to us, so that we may know whether enough of the banks in the United States are interested in this to make it worth while. Otherwise, we simply want to drop it where it is.

President Brown: Mr. Brady, on behalf of this group I think I can say that we will be very glad to cooperate with you to ascertain the sentiment of the banks in the various States.

Mr. Brady: I will do this: In connection with this manuscript which I have, giving this report and also the tabulation that we have received on this question, we will have copies of this sent to you so that you will be better informed on it. As to the letter which we will want you to send out, we will do all the work we can, except just simply to have you send it through your State Association offices. If you will do that, if you are willing to do it, we are willing to go ahead and do the work.

Remarks of Executive Manager Stonier

I want to say that we will have three regional conferences again this year, if it is possible and you men wish to do so, in the New England area and also in the Central States area. We received a great deal of help, that is, the members of the staff did, through the opportunity of meeting with you at those conferences. If you want us to meet with you again this year, we would like to do it if it can be conveniently worked out, and we would also like to meet with the Secretaries and other State officers in the Northern territory at the time we are in that section.

The second thing I wish to say is that I hope further consideration can be given to the recommendation made in the report of the President of this section with reference to the possibility of some type of retirement plan which might be undertaken by the American Bankers Association. Mr. Brown and I have had an opportunity to discuss it. I might say that we are very much interested in it, providing we can do it on a satisfactory basis and I hope that more consideration, either at this time or later, will be given by this section to that very important consideration.

Finally, Mr. President, I want to express my personal appreciation for how much many of you men have helped me during my first year of trying to be Executive Manager of the American Bankers Association. From you men who have been longer in this work, I have gotten a great deal of information and helpful guidance, and I sincerely appreciate that on the personal side entirely.

Report of Committee on Resolutions—Action and Discussion Respecting Pension Plan

President Brown: Is the Resolutions Committee ready to report?

Mr. Coate: I understand the function of our committee was merely to present one resolution. We have prepared it in this form and submit it to you for your consideration:

Whereas, it is our belief that the organization of pension systems by each State Association represents uneconomical and unnecessary waste and duplication, therefore be it

Resolved, That our President appoint a committee to study a practical, feasible pension plan which might be made available to bank officers and employees of all States where such systems have not already been organized, and report at the Executive Council meeting of the A. B. A. nex spring.

President Brown: You say "our President." Who do you mean—the President of this Section?

Mr. Coate: I mean the President of this Section, for the reason that I had the benefit of contracting Frank Simmonds and Mr. Needham in the preparation of the resolution, and they seemed to think that it was a subject that would require some time to investigate and that it might be done or should be done by a committee from the Secretaries Section.

President Brown: Do you mean to say that we haven't the privilege or the power to address a request or make a recommendation to the A. B. A.?

Mr. Coate: I don't think they looked at it from that standpoint at all. I think they are in accord with the idea but did not want to assume the responsibility until we had investigated the situation to determine what might be the best plan. It seemed to me that was a compliment to our group, rather than saddling work on us.

President Brown: I merely want to say this: that I talked this thing over with Hal Stonier and it was his suggestion that if this group were in favor of this idea, we should address a resolution to the A. B. A.

Mr. Coate: Fine. Of course, this came to me out of a clear sky. I had no opportunity to consult with Dr. Stonier at all, and perhaps Frank Simmonds and Sam Needham didn't know about that, either. Let us have that changed then to that effect.

President Brown: I would suggest that the President of the A. B. A. appoint that committee.

Mr. Coate: Then instead of it reading:

"Therefore be it resolved that our President appoint a committee,"

I will change it to read:

"Therefore, be it resolved that the President of the A. B. A. appoint a committee," &c.

President Brown: Gentlemen, you have heard the resolution, as amended. Have you any comment to make on it?

Mr. Duncan: I am wondering what the effect of the passage of that resolution would have on the bankers of the various States where pension plans have been introduced, whether it would disturb their thinking to the extent that they might not enter the State plan, awaiting the outcome of any action that the A. B. A. might take. I think that Mr. Graettinger's report referred to seven States that had adopted pension plans. We happen to be one of those States, and we qualified our plan the first of September.

It is a tremendous job, as the Secretaries of these other six States appreciate, acquainting the bankers and their employees throughout the State with the importance of the plan, &c. A very thorough educational program was conducted in our State. Even in the face of that, it is not going over so "hot." That is not due to any lack of intelligence on the part of the Minnesota bankers, but I think it is typical of bankers generally that they are rather reluctant about going into anything hurriedly. I am just wondering whether if publicity is given to the possibility of the A. B. A. appointing a committee to study the feasibility of the A. B. A. promoting a nationwide plan, that would have any effect. I am just raising that question for discussion because I feel that the States that have promoted these plans may feel that their plans are just as good as any other plan that might be promoted by the A. B. A.

President Brown: My observation is that in any State there are a certain number of banks, somewhere around 4 or 5%, who want pension plans and will enter them, and that you cannot sell another bank in that State. I don't know how to sell them. There are some of them that want pensions and will take them.

Mr. Coate: We feel that we have covered the ground as thoroughly, perhaps, in New Jersey as any other State. We have 41 banks and four or five have it under consideration now. But it seems to me that this plan is a very good one because it will, just as we started out saying, relieve each State of attempting to put over a plan with just a few banks in it. Why not all be together? I don't think our plan or yours either, Bill, would be particularly affected, because they couldn't get anything better than we have—we will admit that—and we exempt here those States that have already pension plans organized. Personally, I don't think it would hurt any of us, because the A. B. A. plan or any plan that may be conceived I don't think will be any better than our own is now.

President Brown: Is there any other discussion? Are you ready for the question? Those in favor say "Aye"; opposed. It is carried. The resolution is adopted.

Report of Committee on Nominations—Newly Elected Officers

President Brown: Mr. Auch can we have the report of the Nominating Committee.

Mr. Auch: Mr. President, your Nominating Committee presents the following recommendations for your consideration:

For President, C. W. Beerbower, Secretary of the Virginia Bankers Association.

For Vice-President, C. C. Wattam, Secretary of the North Dakota Bankers Association.

For Second Vice-President, L. P. Scarboro, Secretary of the Colorado Bankers Association.

For your Board of Control, the three listed as officers plus A. H. Coate, Secretary of the New Jersey Bankers Association and William Duncan Jr., Secretary of the Minnesota Bankers Association.

[The report was duly adopted and the meeting adjourned.]

CURRENT NOTICES

—Announcement is being made of the dissolution of Wheeler & Co., Philadelphia investment house. Bioren & Co., Philadelphia, members New York and Philadelphia Stock Exchanges, announce that Walter A. Schaufler, Walter D. Gray, William E. Slack and John A. Bates, formerly with Wheeler & Co., have become associated with them.

—Organization of Pedley, Martin & Co., members of the New York Stock Exchange, with offices at 634 South Spring Street, Los Angeles is announced. The firm will be correspondent for J. S. Bache & Co., of New York.

Partners in Pedley, Martin & Co. will be Eric L. Pedley, James Sherwood Martin, Alexander J. Robertson, Henry A. Peckham, and J. Howland Paddock, who is a special partner. With the exception of Alexander J. Robertson, a well known New York broker who will represent the firm on the floor of the New York Stock Exchange, all the partners are widely known in local financial circles.

Mr. Pedley, an internationally known polo player and sportsman, entered the securities business in 1924 with Blair & Co., in 1929 becoming a partner of a prominent local stock exchange firm and for the last two and a half years has been resident manager of the Los Angeles office of a New York Stock Exchange member.

Mr. Martin came to Los Angeles from Canada in 1929 and has been active for a mumber of years as partner of a local brokerage firm. Mr. Peckham has been a member of the New York Stock Exchange since 1930. Mr. Paddock, a special partner, is a prominent Los angeles financier and has been a resident of Southern California for many years. He is also a well known polo player and is Chairman of the Midwick Polo Committee for 1938-1939.

Russell Turner and Ray P. Tracy, who have been associated with Mr. Pedley for the past eight years and are well known in Southern California brokerage circles, will also be identified with the new firm.

—Jackson Bros., Boesel & Co., members New York Stock Exchange, announce the opening of a branch office at the Savoy Plaza Hotel, Fifth Ave. and 59th Street, New York City, under the management of William H. Cowan, with George A. Lowander, as assistant manager.

—Colyer, Robinson & Co., Inc., 1180 Raymond Blvd., Newark, N. J. has issued a summary of the available New Jersey municipal bonds as of Nov. 1, 1938, with an added tabulation of one to ten year maturities.

—The New York Stock Exchange firm of Newburger, Loeb & Co., 40 Wall St., New York City has prepared for distribution a current list of over-the-counter market stock quotations.

—Clarence Martin, formerly with the Boston office of C. F. Childs & Co., has joined the municipal department of Burr & Co., Inc. in that firm's Boston office.

—William H. Combs & Co., 61 Broadway, New York City have prepared an analysis of the rubber industry and principal companies in that field.

—F. L. Salomon & Co., members New York Stock Exchange, announce the removal of their offices to 30 Broad Street, New York City.

—Bristol & Willett, 15 Broadway, New York City are distributing the November issue of their "Over-The-Counter Review."

—Allen & Co., 30 Broad St., New York City have prepared an analysis of Republic Natural Gas Co.

CURRENT NOTICES

—Mark J. Stuart, member of the New York Curb Exchange, has been admitted to general partnership in the New York Stock Exchange firm of W. S. Sagar & Co. Mr. Stuart was formerly a partner of Hardy & Co. and prior to that was a member of the firm of Marquesee, Stuart & Co. He has been a member of the Curb since 1934 and in his new connection will be the firm's floor member on the Curb Exchange.

Mr. Stuart is prominent in the Metropolitan Golfers Association, being a member of the Executive Committee at present and in 1933 was Metropolitan Amateur Champion. Other partners in W. S. Sagar & Co. are Mr. Sagar, Walter F. Seeholzer and Frank A. Pavis.

—Announcement is made of the opening of a Philadelphia office at 1528 Walnut Street by R. H. Johnson & Co. to conduct a general investment and brokerage business under the management of Joseph D. Euler, the resident partner. The firm is a member of New York and Philadelphia Stock Exchanges and New York Curb Exchange. Mr. Euler is a member of the Philadelphia Stock Exchange and was a a partner of the firm of Edward G. Wyckoff & Co., which was dissolved last June. The firm has offices in New York, Troy and Albany.

—Joseph S. Bernbach has become associated with the brokerage firm of Wayne Hummer & Co., 105 West Adams Street, Chicago. Mr. Bernbach, who has been in the brokerage business since 1919, was last associated with the Chicago office of Abbott, Proctor & Paine, where he was a customers' man for the past 12 years. He will serve in the same capacity with Wayne Hummer & Co.

—Announcement is made that Starr C. Koerner has become associated with Mitchell, Hutchins & Co., 231 South La Salle St., Chicago, as manager of their trading department in the Chicago office. Mr. Koerner was formerly with Moore, McLean & McDermott and prior to that was employed for 14 years by F. M. Zeiler & Co.

—Sprayregen & Co., members New York Stock Exchange, announce the removal of their branch office in Newark, N. J., to 60 Park Place. Archie Josephson will continue as manager of the branch.

—Richard E. Kimbell, formerly with Granbery, Marache & Lord and prior to that for many years with The First Boston Corp., has become associated with Hession, Maher & Griscom in the firm's New York office.

—Lapham, Davis & Bianchi, members of the New York Stock Exchange, announce that Harold R. Beacham, Clifford H. Marshall and Francis J. Thorn have become associated with them in their Boston office.

—E. G. Parsly, formerly of Parsly Bros. & Co., Philadelphia, has been elected Executive Vive-President and Director of Kennedy, Hall & Co., Inc.

CURRENT NOTICES

—Using a representative list of 30 companies whose securities are traded in over-the-counter, J. Arthur Warner & Co., 120 Broadway, New York City have inaugurated, effective with the daily bid prices for the month of October, the Warner Unlisted Stock Index. The new Index shows a rise of 9½% in October, compared with a rise of 6% for industrials in the Dow, Jones Averages during the same month.

The companies included in the Index are Aetna Standard Engineering, Amerex Holding Corp., Autocar Corp., Baltimore American Insurance Co., Bankers Trust Co., Buckeye Steel Castings, Chase National Bank, Citizens Utilities Co., Crowell Publishing Corp., Cuban Atlantic Sugar, Eastern Air Lines, General Machinery Corp., General Public Utilities Corp., Giddings & Lewis Machine Tool, Gleaner Harvester Corp., Golden Cycle Mining, Home Insurance Co., Marlin Rockwell Corp., Missouri-Kansas Pipe Line Co., National Cylinder Gas Co., Pollack Mfg. Corp., Republic Natural Gas Corp., Sierra Pacific Power Co., Sylvania Industrial Corp., Talon, Inc., Tokheim Oil Tank & Pump, Trico Products, West Michigan Steel Corp., Wickwire Spencer Steel Corp., York Ice Machinery Corp.

—An advanced study conducted as a seminar in current Federal income tax procedure and problems has been opened at New York Chapter of the American Institute of Banking. The provisions of the Revenue Act of 1938, current regulations and rulings, and recent decisions will be discussed. The application of the tax law to estates and trusts and its requirements relative to fiduciaries, donors of trusts, and beneficiaries will be given particular attention. This course is intended for bank and trust company officers and employees who have had sufficient income tax or trust management experience to enable them to take an active part in the discussions. Myron M. Zizzamia of the City Bank Farmers Trust Co. will be the instructor. Registrations are now being accepted at the Office of New York Chapter in the Woolworth Building.

—Arthur N. Bloch has been admitted to general partnership in the New York Stock Exchange firm of Cowen & Co. For the last five years Mr. Bloch was in the syndicate and trading department of Speyer & Co., with which firm he had been associated since 1924. He is a member of the Bond Club of New York and at present is President of the Corporation Bond Traders' Club of New York.

—Charles F. Kettering, Vice-President of the General Motors Corp. in charge of research, will address the Bond Club of New York at its next luncheon meeting to be held at the Bankers Club on Tuesday, Nov. 15. The subject of his address will be "A Look Into the Engineering Future." John K. Starkweather, President of the Bond Club, will preside at the luncheon.

—Bernard W. Snow, internationally-known crop expert, has become associated with Fuller, Rodney & Redmond in Chicago in charge of their department of crop news and estimates. Mr. Snow has occupied a similar position for many years with Bartlett, Frazier Co.

—Hoit, Rose & Troster, 74 Trinity Place, New York City have issued a special public utility preferred stock supplement to their November edition of "Facts and Figures."

—James Talcott, Inc. has been appointed factor for Thomas Hosiery Mfg. Co., New York City, distributors of hosiery.

National Association of Real Estate Boards to Hold Annual Convention in Milwaukee, Wis., Next Week

Steps taken during the past year and steps that may usefully now be taken in the all-around strengthening of the real estate structure of American cities will be reviewed by the National Association of Real Estate Boards and its professional institutes and specialized divisions and councils at the annual convention of the Association to be held in Milwaukee, Wis., Nov. 9, 10, 11 and 12. The Association's announcement of Oct. 29 went on to say:

Concerned with questions of public policy which form the underlying conditions of future real estate development, and constituting at the same time the great national round-table on current trends of the real estate market and on developments by business practice to meet current economic needs, the convention will be preceded and followed by important meetings of the Association's board of directors, will culminate in a general business session on the morning of Nov. 12, the principal such meeting of the real estate year.

Joseph W. Catharine, Brooklyn, N. Y., as President of the Association, will be Chairman of all general sessions and at the opening general session, on the afternoon of Nov. 9, will outline the work which real estate men and real estate boards have before them in guiding sound urban real estate use under the very much changed conditions of city growth which have come about in the last ten years and under the changing general business conditions which may be expected to characterize the years just ahead.

A previous reference to the meeting next week appeared in our issue of Sept. 3, page 1431.

Annual Convention of American Finance Conference to Be Held on Nov. 10-11 in Chicago

The fifth annual convention of the American Finance Conference, independent finance company trade association, will be held at the Drake Hotel, Chicago, Nov. 10-11. Among the convention speakers will be: Senator Joseph C. O'Mahoney, Wyoming; Wendell Berge, Assistant Attorney General, assigned to the Anti-Trust Division of the Department of Justice; F. Cyril James, Professor of Banking at the Wharton School of Finance, University of Pennsylvania, and A. W. Newton, Vice-President of the First National Bank of Chicago. Owen L. Coon, Chicago, is President of the Conference, and J. F. Hudson, Kansas City, and G. A. Pivirotto, Pittsburgh, are Vice-Presidents.

Christmas Club Deposits in Mutual Savings Banks Amounted to $54,429,205—Number of Accounts Reached New Record, National Association Reports

The figures on Christmas Club deposits in mutual savings banks in the 17 states where these institutions operate were announced on Nov. 1 by the National Association of Mutual Savings Banks. This year the total accounts reached a new record of 1,326,797, an increase of 99,906 over last year. The amount to be distributed is $54,429,205, an increase of $2,771,844 over 1937. The average account will approximate $41.02, the Association said, it added:

New York led the country in point of deposits and depositors, the aggregate being $24,057,899 distributed among 583,127 accounts, an average of $41.26. The sums to be distributed in the five boroughs of the greater city were, in order: Brooklyn, $8,406,603 to 220,154 accounts; Manhattan, $6,053,617 to 127,941 accounts; Queens, $1,734,726 to 45,020 accounts; Bronx, $822,000 to 21,317 accounts, and Richmond, $755,000 to 16,807 accounts. Total deposits for the five boroughs this year are $17,771,946, as against $15,968,046 last year, while the number of accounts rose to 431,239 from 386,776 last year.

Upstate the leading cities were: Albany, $1,481,538 with 26,558 accounts; Rochester, $705,000 with 21,804 accounts; Yonkers, $500,000 with 11,361 accounts; Schenectady, $470,000 with 14,926 accounts; Syracuse, $448,000 with 10,090 accounts; Utica, $435,000 with 8,800 accounts, and Poughkeepsie, $167,000 with 4,370 accounts.

Massachusetts ranked second to New York, having deposits of $13,124,360 and accounts numbering 325,829. Connecticut stood third, deposits being $5,386,191, depositors numbering 137,662.

Henry R. Kinsey is President of the National Association of Mutual Savings Banks.

This is under no circumstances to be construed as an offering of these Bonds for sale, or as an offer to buy, or as a solicitation of an offer to buy, any of such Bonds. The offer is made only by means of the Prospectus.

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